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VOL. III, NO. 6 NOVEMBER 16, 1923

UNIVERSITY EXTENSION DIVISION

UNIVERSITY OF NORTH CAROLINA
EXTENSION BULLETIN

CANCELLATION OF ALLIED WAR DEBTS

THE UNIVERSITY OF NORTH CAROLINA PRESS
Entered as Second-Class Matter October 19, 1921
CHAPEL HILL, N. C.

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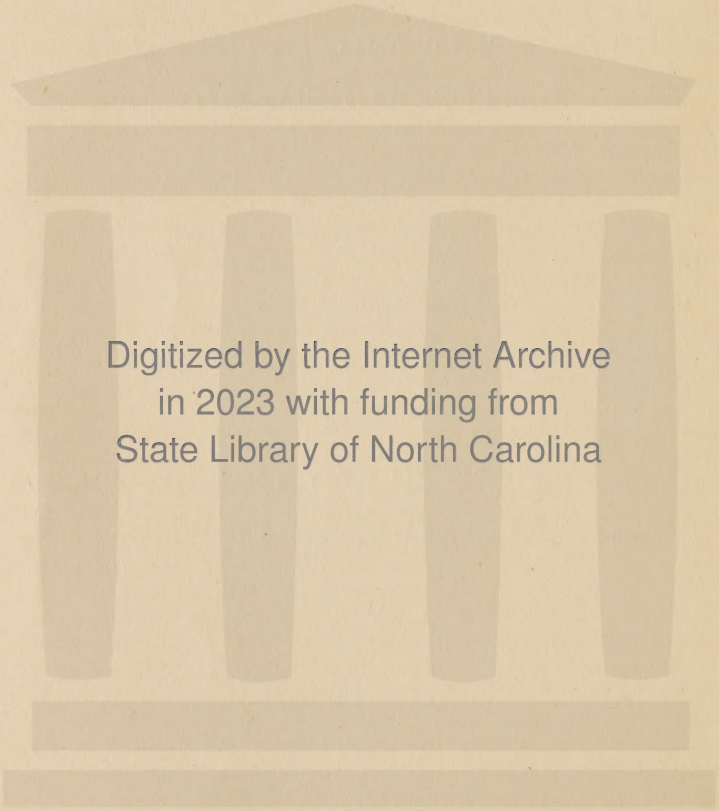
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The High School Debating Union

History and Purpose

The High School Debating Union was organized among the secondary and high schools of North Carolina by the Dialectic and Philanthropic Literary Societies of the University during the school year 1912-13. It was organized to encourage debating in a definite, systematic fashion among North Carolina high school students. The query of that year was, Resolved, *That the Constitution of North Carolina should be so amended as to allow women to vote under the same qualifications as men.* Ninety schools took part in the State-wide debate on February 22, 1913. Sixteen schools won both debates and sent their teams to Chapel Hill for the final contest. The Pleasant Garden High School, of Guilford County, represented by Messrs. Grady Bowman and S. C. Hodgin, on the affirmative side, was the winner in the final contest on March 7, 1913, and accordingly was awarded the Aycock Memorial Cup.

A Part of Extension Work

During the school year of 1913-14 the High School Debating Union moved onward with splendid success. It received the additional support of the University Extension Division, in order to insure its permanence and enlarge its usefulness and scope. Everywhere, all over the State, it was recognized as a definite, big part of the University's effort to bring itself into a helpful relation with every community and every person in North Carolina. One hundred and fifty schools enrolled in the Union and took part in the triangular debates on March 20, 1914. Forty-one schools won both of their debates and sent their teams, numbering 164 debaters, to Chapel Hill to compete in the final contest. Before an audience of 2,000 in Memorial Hall, on April 3, 1914, the Winston-Salem High School, represented by Messrs. Charles Roddick and Clifton Eaton, on the negative side, won the final contest and was awarded the Aycock Memorial Cup. The query was, Resolved, *That the Constitution of North Carolina should be so amended as to allow the Initiative and Referendum in State-wide legislation.*

The Contest of 1914-1915

The contest of 1914-15 was the most successful which had yet been held. Two hundred and fifty schools in 90 counties became members of the Union. Representing them, 1,000 student-debaters spoke, March 26, before large audiences in cities, towns, and rural communities all over North Carolina, on the query, Resolved, *That the United States*

should adopt the policy of subsidizing its Merchant Marine engaged in foreign trade. Fifty schools won both debates and sent their teams to Chapel Hill to compete in the final contest. Before another splendid audience in Memorial Hall, on April 9, 1915, the Wilson High School, represented by Misses Lalla Rookh Fleming and Ethel Gardner, on the negative side, won and was awarded the Aycock Memorial Cup.

THE CONTEST OF 1915-1916

Three hundred and twenty-five schools, represented by 1,300 debaters, enrolled in the Union during the fall of 1915 for a great State-wide debate, March 31, 1916, on the query, RESOLVED, *That the United States should adopt the policy of greatly enlarging its Navy.* Sixty-eight schools won both debates and sent their teams to Chapel Hill to compete in the final contest. The Aycock Memorial Cup was won, on April 14, 1916, by Miss Myrtle Cooper and Boyd Harden, speakers on the affirmative for the Graham High School. Five hundred visitors came to Chapel Hill for the final contest of the High School Debating Union and the other features of High School Week.

THE CONTEST OF 1916-1917

The query which was discussed in the fifth annual contest of the High School Debating Union was, RESOLVED, *That the Federal Government should own and operate the railways.* The State-wide contest on March 31, 1917, was participated in by 1,324 student-debaters, representing 331 schools. Seventy-four schools won both debates and sent their representatives to Chapel Hill to compete in the final contest. Messrs. Vinson Smathers and Roy Francis, affirmative speakers of the Waynesville High School, were victorious from the total number of 296 debaters present, and were awarded the Aycock Memorial Cup, the final debate being held in Memorial Hall on April 20, 1917, before an audience which taxed to the utmost the hall's capacity. The number of visitors coming to the University for the exercises of High School Week was six hundred.

THE CONTEST OF 1917-1918

The sixth contest centered around the query, RESOLVED, *That Congress should enact a law providing for the compulsory arbitration of industrial disputes.* The finals were held at Chapel Hill on April 11 and 12, 1918, when 66 teams, with 246 debaters, participated. This was probably one of the most spirited and hotly contested debates ever held on the Hill. From first to last the good sportsmanship of every one was a matter of most favorable comment. Thomas Burton and Will Anderson, representing the Wilson High School, on the negative side, won the decision and carried the Aycock Memorial Cup back to Wilson for the second time, Wilson having won the 1915 contest. The enrollment of schools in the sixth annual contest was 300.

THE CONTEST OF 1918-1919

The query which was discussed in the seventh annual contest of the High School Debating Union was, RESOLVED, *That the United States Government should adopt a policy requiring one year of military training of all able-bodied men before they reach the age of 21.* One hundred and eighty schools in seventy-five counties took part in the State-wide discussion of this subject on April 4, 1919. Forty-one schools won both of their debates and sent their teams, numbering 164 debaters, to the University to participate in the final contest for the Aycock Memorial Cup. Miss Aura Holton and Leo Brady, representing the Durham High School, on the negative side, were successful in winning the award of the Aycock Memorial Cup in the final debate held in Memorial Hall on May 2, 1919.

THE CONTEST OF 1919-1920

Two hundred high schools participated in the eighth annual contest of the High School Debating Union. The query was, RESOLVED, *That the United States should adopt a policy of further material restriction of immigration.* Forty-four high schools won both debates and sent their teams, numbering 176 debaters, to the University to participate in the final contest for the Aycock Memorial Cup. Arthur Kale and Clifton Ervin, of the Asheville High School, representing the affirmative side of the query, won the award of the Aycock Memorial Cup in the final debate held in Memorial Hall on April 23, 1920.

THE CONTEST OF 1920-1921

Two hundred high schools took part in the ninth annual contest of the High School Debating Union. The query was, RESOLVED, *That the policy of collective bargaining through trade unions should prevail in American industry.* Fifty schools won both debates and sent their teams, numbering two hundred debaters, to the University for the finals. Ludlow Rogers and Miss Eunice Hutchins, of the Durham High School, representing the negative side of the query, won the award of the Aycock Memorial Cup in the final debate held in Memorial Hall on April 15, 1921.

THE CONTEST OF 1921-1922

The query discussed by the two hundred and fifty high schools taking part in the tenth annual contest of the High School Debating Union was, RESOLVED, *That the United States should enter the League of Nations.* Sixty schools won both of their triangular debates and sent their teams, numbering 240 debaters, to the University to compete in the final contest for the Aycock Memorial Cup. Linwood Hollowell and Freeman Twaddell, of the Durham High School, representing the negative side of the query, won the award of the Aycock Memorial Cup in

the final debate held in Memorial Hall on April 7, 1922. Since the Durham High School was victorious in the final debates both in 1921 and 1922, this school came into permanent possession of the first Aycock Memorial Cup, the trophy given to the High School Debating Union in 1913 by the inter-collegiate debaters of the University of North Carolina.

THE CONTEST OF 1922-1923

Two hundred and fifty high schools took part in the twelfth annual contest of the High School Debating Union. The query was, RESOLVED, *That Congress should provide for enforcement of decisions of the Railroad Labor Board.* Sixty schools won both debates and sent their teams, numbering 240 speakers, to the University to compete in the final contest. Misses Ellen Mellick and Mary Dozier, of the Elizabeth City High School, representing the negative side of the query, won the award of the second Aycock Memorial Cup in the final debate held in Memorial Hall on April 13, 1923. The contest of last year was regarded as one of the most successful which have been held since the debating movement was inaugurated.

THE QUERY FOR 1923-1924

The query which will be discussed this year by the schools having membership in the High School Debating Union is, RESOLVED, *That the inter-allied war debts should be cancelled.* Since the days of the world war, international problems have held the attention of the people of the United States as never before. It is realized that the welfare and the prosperity of our own country are intimately related to the welfare and prosperity of the other nations. The question of whether the inter-allied war debts should be repaid, or should be cancelled, is one of interest and of great importance. The committee hopes that this year's high school contest may be of profit to all who take part in the debates and to all who hear the debates.

REGULATIONS

1. The Dialectic and Philanthropic Literary Societies and the University Extension Division of the University of North Carolina will suggest a query, to be discussed on a given date by the schools entering the Union.

2. All secondary schools of North Carolina, however supported, offering regularly organized courses of study above the seventh grade, and not extending in their scope and content beyond a standard high school or secondary school course, shall be eligible for membership in the High School Debating Union.

3. Schools accepting this offer and thus becoming members of the Union shall be arranged into groups of three for a triangular debate,

the status and standards of the schools, their proximity, accessibility, and convenience of location to be considered in forming the groups.

4. Each school of each triangular group shall agree to furnish two debating teams of two members each, the one to uphold the affirmative side of the query, and the other to defend the negative side.

5. The members of the debating teams must all be bona fide students of the schools they represent. To be bona fide students, they must be in regular attendance at the time of the debate, and they must have been in regular attendance for at least 30 per cent of the school year up to and including the date of the debate, and must have made passing grades on a majority of the studies in some regularly organized course of study.

6. No post-graduate of a school—that is, no student who has already finished a four-year high school course shall be eligible to represent his school in the contests. This shall not serve, however, to debar those students who are in the upper classes in school systems modeled after the junior-senior plan, unless these students have already been graduated, or awarded diplomas, from the schools which they are now attending or other high schools. If such students have been graduated already, or awarded diplomas, they are, of course, ineligible to compete.

7. The team debating at home shall in each case uphold the affirmative side of the query, and the visiting team the negative.

8. The schools themselves shall select and agree upon the judges of the local contests.

9. Each speaker shall have twenty minutes at his disposal, not more than fifteen of which shall be used in the first speech.

10. The schools which shall win both of their debates shall be entitled to send their teams to the University to compete in the final contest for the Aycock Memorial Cup.

11. In the event that one school of a triangle drops out and the committee at Chapel Hill is unable to secure a school to take its place, then the two teams remaining shall debate one another, each sending a team on the negative to the other.

12. In the event that two schools of a triangle drop out of the Union and the committee is unable to secure schools to take their places, then the remaining school shall be declared the winner over the others, by their default.

13. The school having the strongest team on the affirmative side of the query and the school having the strongest team on the negative side shall be entitled to contest publicly in Memorial Hall at the University for the Aycock Memorial Cup. (The strongest team on each side of the query is to be determined by means of preliminary contests in debate at Chapel Hill.)

14. The school which shall win the debate, thus finally held, shall

have its name inscribed on the Aycock Memorial Cup, together with the names of its two winning representatives.

15. Any school which shall win in the final contest for two years in succession shall have the cup for its own property.

16. All high school representatives and principals coming to the University for this contest will be entertained free of cost for two days at Chapel Hill.

17. All contestants are expected to prepare their own speeches with legitimate assistance of the teachers, principals, or superintendents in their school systems. Legitimate assistance is interpreted to mean oral advice, suggestions, discussions, and criticism.

SUGGESTIONS AS TO JUDGES

1. The judges should be disinterested parties to the success of either team, and, so far as possible, should be non-local.

2. They should sit apart during the debate.

3. They should judge the contest as a debate, and at its conclusion without consultation should vote "Affirmative" or "Negative" on the merits of the debate. They should not consider the merits of the question.

4. Each judge should sign and seal his vote and deliver it, through an usher, to the presiding officer who should publicly open the votes and announce the decision.

5. Before the debate begins a copy of these suggestions should be given to each judge for his guidance.

ORIGINALITY OF DEBATES

The High School Conference in session at Chapel Hill during the summer of 1916 recommended, "that the principals of the schools in the various triangles be urged to take some steps among themselves looking toward the originality of the debates." The committee realizes that "the debate which a speaker produces should be his very best; but it should under no circumstances be better than his best"; that the success of the Union will be seriously hindered unless in each instance the speech of a debater represents his own individual work. It wishes, therefore, to ask the principals to give this matter their very careful consideration and to note particularly Regulation No. 17. In cases where necessary, the principals in the various triangles should take such action among themselves as they deem necessary.

For further information, address

E. R. RANKIN, *Secretary,*
HIGH SCHOOL DEBATING UNION,
Chapel Hill, N. C.

Cancellation of Allied War Debts

Query

RESOLVED, *That the inter-allied war debts should be cancelled.*

Explanation and Limitation

For the purpose of uniformity and definiteness of issue in the debates of the High School Debating Union, the following explanation and limitation of the query is expressly laid down:

It is understood that the statement of the query, as given above, contemplates that those obligations which represent cash advances made by the United States to the allied powers, under the Liberty bond acts, on account of the world war, as these obligations are set down on page 15 of this bulletin, shall be cancelled by the United States; it being understood and taken for granted, further, that the other governments will likewise cancel the inter-allied war debts which are due them.

It is understood that the statement of the query, as given above, does not contemplate that obligations made on account of the sales of surplus war material (act of July 9, 1918), nor obligations made on account of relief supplies furnished (act of February 25, 1919), nor obligations made on account of the sales of flour (act of March 30, 1920), shall be cancelled by the United States.

Cancellation of Allied War Debts

Brief

RESOLVED, *That the inter-allied war debts should be cancelled.*

Introduction

I. The question is one of great importance.

A. Approximately eleven billions of dollars, including principal and interest, are now owing to the government of the United States by governments of other nations, in repayment of cash advances made by the United States to the allied powers, under the Liberty bond acts.

B. These loans were made to the allies, after the United States entered the world war, for the purpose of supplying war necessities of the allied countries.

C. The question arises as to whether the United States should expect and receive payment of these war debts from the allied countries or whether the United States should cancel these debts.

AFFIRMATIVE

I. The United States is morally bound to cancel the inter-allied war debts.

A. The war was fought for purposes common to all the allies. The allied soldiers in laying down their lives for their own countries were also laying them down for the United States.

B. The allies contributed vastly more to the total of dead and permanently disabled than did the United States. The United States was able only after great delay to place men at the battle front. Had we been in position to place men at the front when war was declared, our death toll would have been vastly greater.

C. Our sufferings in the common cause were so slight in comparison with those of our allies, our material condition is so far better than theirs, our difficulties are so trivial beside theirs, that simple justice demands that the United States should deal generously with the allies and cancel the inter-allied war debts.

D. The loans are not a moral nor a just obligation, because if they were paid we should not have borne our just share of the burden of defending the great common cause.

E. The United States having amassed great wealth out of the war, and having drawn vast sums of gold from Europe, can well afford cancellation.

II. The allies are in sore need of the cancellation of the inter-allied war debts.

A. France has been bled white, England has lost the flower of her young manhood, Belgium is just now starting to build anew amid the ruins of her factories and farms.

B. Nations unable to buy sufficient food for their people cannot pay billions of dollars in debt.

C. Our allies are so financially crushed that it is impossible for them to pay us, and any attempt to collect the loans will result not in payment but in the loss of the friendship and markets of these great nations and in the arousal of enmities as between them and us, and in their seeking other international friendships and trade relations.

F. Professor Seligman says: "The truth is that our debtors are bankrupt. They cannot pay now and will not be able to pay in any assignable time. I have found no prominent business man or banker here or abroad who believes that there is any possibility of paying the debts. You cannot extract water from a stone."

III. The best interests of the United States demand the cancellation of the inter-allied war debts.

A. The debts cannot be paid in gold, for the great mass of the world's supply of gold is already in the United States. In any event, further importations of gold would have a disastrous effect in that through such importations prices would be raised and the American people would be the sufferers.

B. By exports alone, if at all, could Europe ever pay the debts, either by exports to the United States or to other countries. In either case, the result would be to deprive American industry of its markets and to cause us more harm than good in that thereby the sales of goods made in America would be decreased, and this would bring about loss and hardship to American capital and American labor.

C. Professor Seligman says: "The debt cannot be paid, and if it could be paid it would harm us more than our debtors. As a matter not simply of equity, but of good business, let us study the matter further. We must not harbor the delusion that we can any longer be sufficient unto ourselves alone. More and more we shall have to depend on our exports, whether of raw

materials or of manufactured products. Let us not, in the excess of our zeal, kill with one stone two birds, each of which we should seek to keep alive—the one, the hope of European regeneration in the interest of a broad humanity; the other, our own prosperity, which will surely be imperiled by the ruin or the ill-will of our best customers."

D. Enlightened self interest demands the cancellation of the debts. The prosperity of Europe, its return to a normal state, is a prime essential to the return of our own prosperity. The remission of the war debt would have a wonderfully stimulating effect on European financial and industrial conditions, and in any event would entail practically no immediate sacrifice for ourselves, as the payment of no debts save those of Great Britain is contemplated at any time soon.

E. A general cancellation of allied war debts today would at once start up the machinery of trade and commerce of all nations.

F. If we press our claims against England and France, then England and France will be forced to press their claims against the weaker allies.

IV. The cancellation of the inter-allied war debts would have a stimulating and a powerful effect for the betterment of present world conditions in that this cancellation would operate to confound pessimists and to hearten those who are hopeful of the world's future. It would bring over the world a return of confidence in the better side of human nature. Such an act as the cancellation of the inter-allied war debts on the part of the richest and most powerful nation, would be applauded throughout the world.

NEGATIVE

I. The United States is under no moral obligation to cancel the inter-allied war debts.

A. Herbert Hoover, secretary of commerce, says: "These loans are often spoken of as debts to our Government. They are, in fact, debts owing to our taxpayers. These loans were made at the urgent request of the borrowers and under their solemn assurance of repayment. The loans were individual to each nation. They have no relation to other nations or other debts. The American taxpayer did not participate in reparations and acquired no territory or any other benefits under the Treaty, as did our debtors. There is no question as to the moral or contractual obligation. The repudiation of these loans would undermine the whole fabric of international good faith."

B. The war was not our war until 1917. When it became our war we entered it and played our full part in it until the end.

C. The United States is under no obligation in honor to remit the debts of the allies. The allies needed the money and the United States advanced it on terms honorable to both parties.

D. If the allied countries did not owe us they might be paying the Germans, and if the allied countries do not pay us, then we shall to all intents and purposes have paid the German debt.

E. No one considers that the expenses of the war were a common burden—it is only insisted that the United States should cancel the debts which are due her. While the allies were borrowing money from the United States, the United States was paying cash for her purchases in Europe, all told about four or five billion dollars worth.

F. We have no reason to believe that cancellation would result in the return of prosperity to Europe. Europe is still ruled by hate, and huge military establishments are maintained at great expense to the over-burdened European taxpayers.

II. Europe does not need cancellation of war debts.

A. Herbert Hoover, secretary of commerce, says: "There is no need for despair in the future of Europe if she can maintain peace. Her hard-working population, her tremendous industries, her enormous productivity and her magnificent intelligence, her fabulous development of skill and scientific knowledge, are vital forces that must win if they have half a chance."

B. Herbert Hoover, secretary of commerce, says: "Large international debt is not a new phenomenon. It is precisely the same thing in its effect upon exchange and trade whether the debt is intergovernmental or private. Before the war, the rest of the world owed to Europe generally probably $30,000,000,000 and this burden was carried without disturbance to the world's commerce. This total sum was mostly accumulated over a period of forty years. It is at least an indication of the productive and paying powers of peace."

C. If the nations of Europe will forget their animosities and jealousies and rivalries and will greatly reduce their military and naval expenses, they will in this way be enabled to decrease greatly their taxation burdens and to improve generally their condition.

D. The great bulk of Great Britain's foreign investments, probably fifteen billions of dollars, survives the war intact, but if Great Britain had not been able to borrow American dollars, all those foreign investments would perhaps now belong to the late imperial German government.

E. No self-respecting nation which believes itself capable of re-establishing a practicable budget, sound currency, and its national credit, could accept cancellation, because acceptance would seriously damage its morale.

F. The allied countries received vast territories from Germany and will receive large reparation amounts. The United States asked for nothing and received nothing.

III. The best interests of the United States demand that the inter-allied war debts be repaid.

A. A debt is a debt. The only thing to do with a debt is to pay it. Commercial life cannot exist unless a man honors his signature on his note, and good feeling between nations cannot continue unless a government honors its signature on its bond.

B. The loans are a part of the assets of the people of the United States. The loans were made by the taxpayers of America and these taxpayers would be the sufferers if the loans were cancelled. The United States was a liberal lender. She has proven herself to be, and will continue to be, a liberal creditor.

C. Enlightened self-interest calls for Europe to put her own house in order before asking for favorable terms on the debts which she owes. Were America to cancel the debts at this moment, the state of things in Europe would not be improved. We have more to gain by extending favorable terms to our debtors than by cancelling the debts outright.

D. The cancellation of the debts would not protect us from foreign goods. 'If Great Britain, France, and Italy have the manufacturing capacity and the managerial talent to lay down goods in our market at prices lower than ours, they will do so, debts or no debts. Europe is going to sell all the goods that the markets of the world will absorb. The markets of the world and the manufacturing activity of Europe would not be materially affected by the payment of the allied debts. Each taxpayer knows that he will pay his share of the allied war debts if the allied countries do not pay their own debts.

IV. The psychology of Europe is different from our psychology. Europeans have inherited not only an ancient civilization but also rivalries and hatreds which have come down through the centuries. Constructive co-operation between European states is lacking. The moral regeneration of Europe must come from the inside. It cannot be achieved from the outside and would not be helped onward by the cancellation of honorable obligations such as the inter-allied war debts.

General References

Obligations of Foreign Governments Held by the United States

The following table is taken from the annual report of the Secretary of the Treasury for 1923. This table shows the amount of obligations, representing only cash advanced under Liberty bond acts, of foreign governments held by the United States, with interest accrued and remaining unpaid thereon as of the last interest period prior to or ending with November 15, 1923.

The obligations shown below are the obligations which the statement of the query, as given on page 10 of this bulletin, contemplates cancelling. These obligations do not include debts owing to the United States on account of the sales of surplus war material (act of July 9, 1918), nor debts made on account of relief supplies furnished (act of February 25, 1919), nor debts made on account of the sales of flour (act of March 30, 1920).

Country	*Principal*	*Interest*	*Total Indebtedness*
Belgium	$ 347,210,808.68	$ 77,433,602.90	$ 424,644,411.58
Czechoslovakia	61,974,041.10	13,234,843.87	75,208,884.97
France	2,933,265,231.96	650,051,228.67	3,583,316,460.63
Great Britain	[1] 4,600,000,000.00		4,600,000,000.00
Greece	15,000,000.00	1,500,000.00	16,500,000.00
Italy	1,647,997,050.16	367,082,346.73	2,015,079,396.89
Liberia	25,000.00	4,818.85	30,818.85
Roumania	23,205,819.52	5,085,993.98	28,291,813.50
Russia	187,729,750.00	48,559,853.07	236,289,603.07
Yugoslavia	26,059,865.40	5,918,019.27	31,977,884.67
Total	$9,842,468,566.82	$1,168,870,707.34	$11,011,339,274.16

[1] *Refunding bonds received under terms of agreement concluded pursuant to the act of Congress approved Feb. 9, 1922, as amended by act of Congress approved Feb. 28, 1923.*

The International War Debt Situation

(By R. C. LEFFINGWELL in *The Annals of the American Academy*, Volume 102, pages 108-15, July, 1922.)

The problem of inter-allied indebtedness is a very difficult one, made more difficult by our national habit of calling everything black or white and insisting on a yes or no answer to every question. Americans tend to divide themselves into two groups—those who believe that all the debts of the Allies to the United States should be cancelled at once out of the whole cloth, without any ifs, ands or buts, and those—the larger number today if the action of Congress is any indication of public opinion—who are disposed to insist upon the payment of principal and interest in every instance and without the remission of a dollar.

The suggestion of cancellation outright was made by former Attorney General Wickersham here, and in Europe by Mr. Keynes in his world-famous book, two years ago. Arguments in support of it in this country have been presented by Professor Moulton and Mr. Bass in their book entitled, *America and the Balance Sheet of Europe;* by Professor Seligman in a paper entitled, "The State of our National Finances," in the *American Economic Review* for March, 1922; by Mr. Justice Clark in an address before the Cleveland Chamber of Commerce, February 9, 1922; and by many others. The whole subject is discussed exhaustively in Mr. Friedman's book on "International Finance and Its Reorganization." Mr. Vanderlip has made a suggestion that Europe's debts to us be applied to the payment of a soldiers' bonus. The money has been spent and blown up. The question is whether the debts can and should be collected. If they ever are collected no doubt many proposals, benign and selfish, will be made as to the use of the money, notwithstanding the fact that it is devoted by the terms of the Liberty Loan Acts to the retirement of Liberty Bonds.

The maintenance of these debts, notwithstanding interest has not been paid upon them, constitutes a grave handicap to the economic recovery of the debtor nations. If the cancellation of bad debts, the scaling down of dubious debts and the forgiving even of some good debts could be used to produce advantages greater than any we can hope to receive by persisting in our present stubborn attitude, by all means let us find it out.

An analysis of these debts probably ought to be made from three principal points of view:

1. How the debts came to be created.
2. The ability of the debtor to pay.
3. The effect upon the creditor of receiving payment.

CREATION OF THE DEBTS

The debts were justly created. That the money which America provided should take the form of a loan was proper and right. Had America given the money away, instead of loaning it, she would have abandoned a system wisely initiated by Great Britain and France themselves and pursued by them throughout the war—a system absolutely essential to any reasonable and practical division of war burdens. This has been elaborated and fully explained from the English point of view by Mr. R. Trouton in the *Economic Journal* (the quarterly Journal of the Royal Economic Society) for March, 1921. Mr. Trouton strongly defends, with reasons ample and convincing, the system by which the debts were created, although his conclusion, equally supported by strong and persuasive arguments, is that the debts should now be cancelled.

Much of the ten billion dollars was loaned after the declaration of war by America, when England and France, Italy and Belgium were holding the line in Europe, waiting for us to take our part. During the early months of the war the Allies were borrowing from us $500,000,000 a month and asking for more. After the first six months, however, the Allies were no longer able to spend dollars in the United States to the extent of five hundred million a month or anything like it, because our own military effort was absorbing our industrial life. There is an element of the grotesque in the fact that the fewer men a country had on the firing line the more claims it was able to establish against its allies; yet that is what happened under the system of accounting adopted, and properly adopted, by the Allies during the war.

Some of the debts were incurred for the support of sterling and franc exchange and, to a minor extent, for the support of lira exchange. When Great Britain bought sterling in the United States from the proceeds of loans from the American government she of course became the owner of the sterling and was to that extent relieved of the necessity of floating domestic loans in England to meet her requirements there. On the other hand, the sterling purchased may have come on the market in response to British or inter-allied purchases for war purposes somewhere in the world's markets.

An impression has been created that the United States required Great Britain in some sense to guarantee or make herself responsible for loans to others of the Allies after the United States entered into the war. That impression is wholly erroneous. Great Britain had, before the United States entered into the war, established the rule that each Ally should be responsible for the financing of inter-allied purchases within its own borders. The same rule was extended into the United States when it entered into the war. Under that simple and sound rule the United States financed the requirements of the Allies within its borders; Great Britain financed the requirements of the Allies

within the British Isles and, to a great extent, within the British Empire (but not in India, where the United States financed all the Allies by shipments of silver for a considerable period); and as to expenditures in the neutral world, Great Britain and the United States shared the burden of finance in accordance with a formula agreed upon between them.

The theory of the rule is simple. The people of each belligerent country could and should respond, in taxes and subscriptions for domestic loans, to the financial demands of its government. The American government could raise all the dollars the Allies needed, the British government all the sterling, the French government all the francs and the Italian government all the lira. On the other hand, because of embargoes on exports of gold and control of foreign exchange, no government could provide finance outside its borders, except at the expense of grave depreciation of its currency in foreign exchange. It was a matter of course that, under the sound rule thus established by Great Britain before the United States entered the war and continued without question thereafter, Great Britain should continue to be a lender as well as a borrower on international account.

After the United States entered the war, in one case only, did Great Britain make advances for purchases by any of the Allies in the United States—that of Russia—and in that case only to the extent of contracts entered into by Russia and guaranteed by Great Britain before the United States entered the war. The amount is not important.

ABILITY OF THE DEBTOR TO PAY

When we come to consider the ability of the debtor to pay, equal diversity appears. Great Britain can pay no doubt in the sense that she can meet the interest charges and ultimately sell her own or private securities in our markets to an amount sufficient to lift the principal of the debt; yet it may be questioned whether Great Britain can pay in full without such disruption of her internal and international economy as would be gravely injurious to her and to us.

France is quite right in her position that her ability to pay largely depends upon her ability to collect from Germany. Unless France can make collections from Germany, which everyone is now engaged in telling her she cannot and should not make, it is difficult to see how France can make any important payments to the Allies.

Italy's ability to pay stands in much the same position as that of France, except that Italy has less to hope for in the way of collections from her enemies.

As to Belgium, we are under a moral obligation to release her and accept Germany's obligation in lieu of hers, so far as concerns pre-Armistice advances. Sooner or later we are certain to recognize that

moral obligation, which rests not merely upon the tentative arrangement entered into at the Peace Conference, but upon the impregnable foundation of little Belgium's great service and sacrifices for all of us. Belgium is a highly civilized, densely populated country and there is no reason to suppose that she can make important payments on account of her international war debts, incurred before the Armistice, independent of her collections from Germany.

The indebtedness of other governments than those which I have now mentioned is perhaps, roughly, half a billion dollars. Some of it is collectible.

EFFECT OF PAYMENT UPON THE CREDITOR

In considering the ability of the debtor to pay, and the effect upon the creditor receiving payment, it is necessary to recall the fact that international payments can be made only in goods, services, gold or evidences of indebtedness (including paper money), and that it is only to the extent that it is able to create an export balance, i. e., export more of these than it imports, that any Ally will be able to effect payments of principal or interest upon its indebtedness to the United States.

The public international war debts do not represent wealth created, but wealth destroyed. In this respect they differ from private international debts created in the ordinary course of business. Before the war Great Britain, not as a nation but as a community, had become the creditor of the whole world by the slow process of private accumulation and investment abroad intelligently made for productive purposes. Great Britain thus enriched herself and enriched her debtors in the process. Debts were gradually created in the ordinary course of trade and business, and the economic life of both debtor and creditor had ample opportunity to adjust to them. Coincidentally, the newer regions of the earth built up export balances, favorable to themselves and adverse to Great Britain, largely for foodstuffs and raw materials, which trade balances Great Britain was able to meet by adding, to her exports of finished products, exports of services (marine, banking, insurance, etc.), and by collecting interest on her capital invested abroad. But the public international war debts were created by the war abruptly and at the same time America's trade balance against Europe was enormously increased by the same war.

The collection of the debts due from the Allies to the United States will tend to stimulate imports into the United States and discourage exports from the United States, thus reducing America's so-called favorable balance of trade, or even eliminating it and substituting an "adverse" balance. No doubt America and the world can adjust themselves to this process if they must. But the process means that America, under-populated with vast territories unexploited and undeveloped, shall produce less than it consumes, and that Europe, overpopulated,

and having already pretty nearly reached the maximum of her productivity, must produce more than she consumes. It would seem that the only way in which the world could ultimately adjust itself to so abnormal an arrangement would be by converting the farm into a city and the city into a farm—that the problem will find its solution by a shift of population to both Americas, to the British Colonies, and to other more sparsely settled regions of the earth. Very obviously such a solution of the problem must be accompanied by protracted distress throughout the world including the United States.

The collection of the public international debts of the Allies to the United States, principal or interest, would serve, then, to subsidize imports and penalize exports from the United States, to reduce prices and wages here and to exaggerate the existing depression and unemployment.

What is really needed is a general settlement involving peace and disarmament, balanced budgets and honest money, the removal of trade barriers and the settlement of international debts. If America could use her claims against Europe to promote so happy a solution of Europe's problems she would render herself at the same time the greatest of all services. She would bring to an end the period of world-wide calamity which began nearly eight years ago and has continued through years of disastrous war and years of equally disastrous peace. She would reopen her own mills and factories, return the unemployed to their jobs, and restore her farmers to prosperity.

British Debt Repayment

Below is given the report of the World War Foreign Debt Commission, as this report was submitted to President Harding by the commission, and was later submitted by President Harding to Congress in his message of February 7, 1923, and was later accepted by Congress:

" 'The World War Foreign Debt Commission, created under the act of Congress approved February 9, 1922, having received the mission appointed by the British Government to consider the fulfilling of the demand obligation of that Government held by the United States, report as follows:

" 'The British Government designated as its representatives the Right Hon. Stanley Baldwin, Chancellor of the Exchequer, and Mr. Montagu Norman, the Governor of the Bank of England, who have conferred with the commission in Washington and presented facts relating to the position of the British Government. The commission has also met frequently in separate sessions and has given the fullest consideration to the problems involved in the funding of the British debt to the United States.

" 'It became manifest at the outset that it would not be possible to effect an agreement for funding within the limits of the act approved Feb. 9, 1922, and the commission has, therefore, considered the practicability of a settlement on some other basis, and though it has not been able, in the absence of authority under the law, to conclude negotiations, it unanimously recommends for submission to Congress a settlement with the British Government as follows:

" 'Principal of notes to be refunded, $4,074,818,358.44.

" 'Interest accrued and unpaid up to Dec. 1, 1922, at the rate of 4¼ per cent, $629,836,160.99.

" 'Deduct payments made Oct. 16, 1922, and Nov., 1922, with interest at 4¼ per cent, thereon to Dec. 15, 1922, $100,526,379.69.

" 'Total, $4,128,085.74.

" 'To be paid in cash, $4,128,085.74.

" 'Total principal of indebtedness as of Dec. 15, 1922, for which British Government bonds are to be issued to the United States Government at par, $4,600,000,000.

" 'The principal of the bonds shall be paid in annual instlalments on a fixed schedule, subject to the right of the British Government to make these payments in three-year periods. The amount of the first year's installment will be $23,000,000 and these annual installments will increase with due regularity during the life of the bonds until, in the sixty-second year, the amount of the installment will be $175,000,000 the aggregate installments being equal to the total principal of the debt.

"'The British Government shall have the right to pay off additional amounts of the principal of the bonds on any interest date upon ninety days' previous notice.

"'Interest is to be payable upon the unpaid balances at the following rates on Dec. 15 and June 15 of each year: 3 per cent semi-annually, June 15, 1923, to December 15, 1932, inclusive; 3½ per cent semi-annually, June 15, 1932, until final payment.

"'For the first five years one-half the interest may be deferred and added to the principal, bonds to be issued therefor similar to those of the original issue.

"'Any payment of interest or of principal may be made in any United States Government bonds issued since April 6, 1917, such bonds to be taken at par and accrued interest.

"'The commission believes that a settlement of the British debt to the United States on this basis is fair and just to both Governments and that its prompt adoption will make a most important contribution to international stability. The extension of payment both of the principal and interest over a long period will make for stability in exchange and promotion of commerce between the two countries. The payment of principal has been established on a basis of positive installments of increasing volume, firmly establishing the principle of repayment of the entire capital sum. The payment of interest has been established at the approximately normal rates payable by strong Governments over long terms of years.

"'It has not been the thought of the commission that it would be just to demand over a long period the high rate of interest naturally maintained during the war and reconstruction; such an attempt would defeat our efforts at settlement. Beyond this the commission has felt that the present difficulties of unemployment and high taxation in the United Kingdom should be met with suitable consideration during the early years, and therefore the commission considers it equitable and desirable that payments during the next few years should be made on such basis and with such flexibility as will encourage economic recuperation not only in the countries immediately concerned but throughout the world.

"'This settlement between the British Government and the United States has the utmost significance. It is a business settlement, fully preserving the integrity of the obligations, and it represents the first great step in the readjustment of the intergovernmental obligations growing out of the war.

"'Respectfully submitted,

"'A. W. MELLON, *Chairman,*
"'CHARLES E. HUGHES,
"'REED SMOOT,
"'THEODORE E. BURTON.'"

"In its comments upon the arrangements negotiated the commission itself has said essentially everything necessary to commend the agreement to your sanction. Note that the commission urges that the settlement is on a basis which 'is fair and just to both Governments' and 'will make a most important contribution to international stability.' More important still is the closing observation that 'it is a business settlement, fully preserving the integrity of the obligations, and it represents the first great step in the readjustment of the intergovernmental obligations growing out of the war.' In these observations I most heartily approve.

"The call of the world today is for integrity of agreements, the sanctity of covenants, and validity of contracts. Here is the first clearing of the war-clouded skies in a debt-burdened world, and the sincere commitment of one great nation to validate its financial pledges and discharge its obligations in the highest sense of financial honor.

"There is no purpose to report that your commission has driven a hard bargain with Great Britain, or to do a less seemly thing in proclaiming a rare generosity in settlement. Amid widespread clamor for the cancellation of World War debts as a fancied but fallacious contribution toward peace—a clamor not limited to the lands of debtor nations but insistent among many of our own people—the British commission came to make acknowledgment of the debt, to put fresh stamp of approval upon its validity and agree upon terms for its repayment.

"It was manifest from the beginning that Great Britain could not undertake any program of payment which would conform to the limitations of time and interest rates which the commission had been authorized to grant. But here was a great nation acknowledging its obligations and seeking terms on which it might repay. So your commission proceeded to negotiate in a business way for a fair and just settlement.

"Such a settlement had to take into consideration the approximately normal interest rates payable, as the commission suggests, "by strong Governments over a long term of years," with a temporary interest rate and suitable options adjusted to the tremendous problems of readjustment and recuperation. Your commission went so far as it believed the American sense of fair play would justify. Even then the British Debt Commission did not feel justified by its instructions to accept the proposal. Only after submission to the British Cabinet was the proposal of your commission accepted, and I bring it to you with the earnest recommendation that it be given, so far as legislation procedure will admit, a cordial and prompt approval.

"A transaction of such vast importance naturally has attracted widespread attention and much of commendation. It is a very gratifying thing to note the press and public have uttered substantially unanimous approval. It means vastly more than the mere funding and the ulti-

mate discharge of the largest international loan ever contracted. It is a recommitment of the English-speaking world to the validity of contract; it is in effect a plight against war and war expenditures and a rigid adherence to that production and retrenchment which enhances stability precisely as it discharges obligations."

References—Affirmative

The Allied Debts

(By Edwin R. A. Seligman, in the *New York Times*, November 5, 1922.)

In a speech at Toledo on October 16 Secretary Hoover, a member of the Allied Debt Commission, gave his views, which presumably represent the policy of the commission as well as of the Government. There is no doubt, however, that there is a growing sentiment in the country which is not in harmony with the views of Mr. Hoover—a sentiment which is entertained by an increasing number not only of business men, but also of farmers and labor leaders. Mr. Hoover's views, moreover, are contrary to those expressed by Mr. Lamont and Mr. Krech at the recent Bankers' Convention in New York.

It may be worth while, therefore, to pass in review the arguments adduced by Mr. Hoover, and to attempt a constructive criticism of a public servant who stands so deservedly high in the affections of the community. In the discussion of the allied debt there are three fundamental points. The first is the character of the obligations; the second refers to the ability of the debtors to pay; and the third has to deal with the desirability on our part of insisting on immediate or early settlement. Let us take these points in order:

1. Is the Allied Debt a Just Debt?

Mr. Hoover starts with the following statement: "These loans were made at the urgent request of the borrowers and under their solemn assurances of repayment. They have no relation to other nations or other debts. The American taxpayer did not participate in reparations and acquired no territory or any other benefits under the treaty, as did our debtors. There is no doubt as to the moral or contractual obligation. The repudiation of these loans would undermine the whole fabric of international good faith. I do not believe any public official, either of the United States or any other country, could or should approve their cancellation."

As to the contractual obligation, there can, of course, be no question. The money was borrowed at the request of the Allies; it was loaned in good faith, and it indubitably constitutes a valid debt. But is the question of moral obligation the same? In the first place, contrary to widespread opinion, the loans to the Allies were to an overwhelming extent made during the war itself. Although private individuals loaned money to the belligerents, not a cent was advanced by the Government until we entered the war. And while it is true that comparatively small

amounts were lent after the armistice, those loans were made almost entirely for expenses contracted during the war.

Of the total amount of about ten billions, there was loaned to Belgium after the signing of the treaty of peace in June, 1919, up to November 15, 1920, another $3,000,000, and up to November 15, 1920, another $10,000,000. To France about $250,000,000 was loaned from the date of the singing of the treaty to November 15, 1919, and another $110,000,000 in the next year. To Italy between the signing of the treaty and November 15, 1919, the total advances were a little under $60,000,000, and another $50,000,000 between that date and November 15, 1920. To Great Britain nothing at all was loaned in either period. Thus, substantially, the entire amount was advanced during the war.

Now, what was the object of these loans? As Secretary McAdoo has told us in his report for the fiscal year ended June 30, 1919: "It is difficult to exaggerate the great purposes served and the great results accomplished by these advances to foreign Governments. In the most critical stage of the war they immeasurably assisted America's gallant associates in obtaining the munitions, supplies and equipment that were so imperatively needed to meet the enemy's offensives or to carry the fighting into his territory, and probably of equal importance was the fact that they served to hearten the Allied armies and peoples by the knowledge that the vast credit resources of the United States were being shared with them for the effective prosecution of a common cause. Conversely, it is not difficult to estimate the disheartening effect that these loans of billions and the willingness of America to lend for the prosecution of the war as much more as was needed, to the limit of her ability, must have had upon the spirit and morale of the peoples and armies of the enemy. * * * *The service of these loans in assisting to hold the battlefronts of Europe until the might of our heroic army could be felt effectively, made possible, beyond the shadow of a doubt, the ending of the war in the fall of 1918.* Without this aid to the Allied Governments the war unquestionably would have been prolonged, if not lost, with the resultant great additional cost in life and treasure."

In other words, as the sentence italicized by me shows, most of the money was loaned and the proceeds used to carry on a joint enterprise during a time when our aid in the shape of actual combatants was insignificant. If the war was a joint enterprise, carried on for a common purpose, is there any more reason to separate the financial contribution than the human contribution? When we finally put our army under the orders of Foch we fused our efforts with those of our Allies and gave an indelible stamp to our common efforts. If we are to charge France and Italy for the wheat that kept their forces alive, for the uniforms that kept their soldiers warm while they held the battlefront, we might as well charge so much a man for the American Army when it finally arrived.

What actually happened was that the Allies furnished a huge armed force which only with difficulty withstood the onset of the enemy. In this huge force the human element was represented primarily by France and Italy; the materials were furnished largely by Great Britain; and the food was contributed chiefly by the United States. All three elements were indispensable to the winning of the war: the absence of any of them would have spelled disaster. The mere fact that our chief contribution was rendered in the shape of book credits must not be permitted to obscure the facts.

It is true that we entered the contest with clean hands and with clean hearts; we poured out lavishly our treasures and the lives of our soldiers; we had nothing material to gain from the victory and we sedulously refrained from even advancing any claim to the division of the spoils. So far, so good. But consider the other side for a moment.

Mr. Hoover tells us that America did not participate in reparations and acquired no other benefits under the Treaty. It is indeed true that we acquired no benefits under the Treaty, but is it true that we acquired no benefits from the war? Is not the reverse the fact? While all Europe was in a death grapple we, as the most important neutral, remained aloof and earned incalculable sums.

At the very outset of the war Europe sent us millions of gold to pay for our supplies, and within a short time the flood of materials which we sent abroad created such a prodigious European indebtedness that it changed the United States from the chief debtor nation of the world to the chief creditor nation. The fortunes made in this country were stupenduous; wages rose precipitately, and while Europe was in the throes of convulsions we reached the dizzy heights of untold prosperity. Is it, then, fair to urge that we made nothing out of the war?

On the contrary, this country has been the greatest beneficiary of the war. We received, indeed, no ships to ruin our shipping trade, as was the case in Great Britain; we received no colonies which would have been burdens rather than assets; but we heaped up wealth, while all other countries lost it.

The revolution which converted us from a debtor to a creditor nation, and which made us at a blow the economic arbiter of the world, is due to the fact that we received these enormous profits. Had we been in the war from the beginning we also should now have been hovering on the brink of bankruptcy. Instead of being able to count the ten billions as assets, our Government probably would have been in the position of owing ten times ten billions as our share of the cost of the war.

And, now, after having escaped all these dangers, after having made enormous profits out of the contest, after having emerged as the real beneficiary of the war, we have the hardihood to say that our relatively insignificant cash contribution—all of which, incidentally, was ex-

pended in this country and went to enrich our people—constitutes a debt which we have the moral right to exact from those who fought by our side and who suffered for the common cause—that is, for our cause—sacrifices incalculably greater than our own!

How are we to explain the almost simultaneous appearance of war-profits taxes in every country if not on the ground of conviction that it is illicit for an individual to make profits out of the blood and misery of his fellow countrymen in so fearful a crisis? But if it is indefensible for a private individual to retain all or even a large part of such profits why is not the same rule applicable to a nation? What moral right have we to retain the profits that have been gained indeed, but not really earned, in such warfare?

Is the Allied debt, then, a just debt? We advanced the money, indeed, in the form of loans, and legally our position is impregnable. What we actually did, however, was to defray our share of a common burden which, if it were to be adjusted on a truly equitable basis, would make us not the creditor but the debtor of the Allied group. To insist now on our pound of flesh is to take the part of a Shylock standing on his legal rights, not of a high-minded partner in a joint common enterprise.

When Mr. Hoover tells us that the Allies gave us their solemn assurance of repayment, he is undoubtedly correct. When a man borrows money he always avers his intention to repay. But it may be questioned whether any of the Allies seriously thought at that time of repayment. It may even be questioned whether any one in our Government seriously contemplated repayment. The situation was so urgent and the crisis so profound that if the Allies had asked for gifts or contributions instead of loans they would have been given the funds just as readily. We know now that England had come absolutely to the end of her tether. Washington knew it then. When we sent our millions of boys to fight we did not stop to dicker whether this was to be a gift or a loan. What was true of the lives of our soldiers would have been equally true of the guns, the airplanes, and the uniforms which they so sorely needed. We made the loans because the Allies asked for loans; had they asked for gifts, we should have been equally ready to comply.

Finally, when Mr. Hoover says he does not believe that the public officials of any country approve the cancellation of the debts, he must be sorely misinformed as to the point of view of nearly every prominent European statesman. It is true that Great Britain has been goaded by our ungenerous attitude into the position where she declares her intention to repay every penny; for, like every proud debtor, Great Britain cannot endure the thought of being twitted with an unpaid debt. But let us not forget that Great Britain loaned to her Allies almost twice as much as she borrowed from us, and that every responsible states-

man in Great Britain would be only too glad of a comprehensive plan whereby she could be relieved of her debt to us and thus be put in position to forego the still larger debts due to her by the other Allies.

From the point of view of the equities of the case, therefore, can the debt of the Allies be called a just debt? We have every legal right to demand it, but from the higher point of view have we a moral right? We emerged from the stupendous struggle with clean hands, indeed, but with full hands. We are the one nation in the world which has profited by the war. Is it not almost like adding insult to injury to ask those who suffered the most and who bore the brunt of a common enterprise to suffer still more in order to enrich us further?

2. Can Europe Pay?

Inasmuch, however, as the debt is undoubtedly a legal obligation, the question arises as to the ability of the debtors to pay. Here we must not fool ourselves. Technically, we are confronted by one solvent debtor and by a number of embarrassed debtors. Practically, however, our real debtors are France, Italy, Belgium, and a dozen or more of the other countries. Almost one-half of the principal of the ten billions is, indeed, owing to us by Great Britain; but while Great Britain was borrowing from us, she was lending still more to France, Italy, Russia, and the other Allies. She was able to make these loans because of the advances made by us. In effect Great Britain served simply as a channel through which we made loans to the continental Allies; the ten billions went to the continent, although part of it went there through an indirect and devious route via Great Britain. The question, therefore, resolves itself into this: Can the continental countries pay the debts? Are they in any position to do so?

Mr. Hoover tells us that the interest and amortization charges upon the debts amount to only from 2 to 12 per cent of their annual income. But if what has just been stated is true, and if our insistence on payment of Great Britain puts her into the unfortunate position of demanding payment from the other Allies, Mr. Hoover's figures must be at least doubled. The Allies will be called upon to pay not from 2 to 12 per cent of their annual income, but from 4 to 24 per cent. And 24 per cent cannot be considered a negligible sum, especially when it is the last straw that breaks the camel's back.

In the next place, Mr. Hoover attempts to controvert the proposition that countries must pay their debts primarily through an exportable surplus, that is, through the exportation of raw materials or manufactured goods. I have the highest regard for Mr. Hoover as a statesman and administrator, but I respectfully submit that his economics in this respect are not sound. A far better analysis of the situation is to be found in the address of Mr. McKenna. Let us consider more closely how international debts can be paid.

First, of course, they can be paid in cash, i.e., in gold. This method of disposing of the Allied debts can, however, be eliminated because the continental nations have no gold to speak of. The great mass of the world's gold supply is in the United States.

The second possible method of paying a nation's debts is by turning over domestic property to the foreign creditor. Where the creditor is the Government, which of course cannot retain the property that may come into its possession, but must dispose of it to private individuals, it is clear that if the lands, railroads, or factories abroad were turned over to our Government in payment of the debt, the Government would have to dispose of them to individual investors. But why should American citizens invest in European lands, railroads, or factories under the present conditions, with the prospects of endlessly increased taxation and decreasing incomes staring them in the face?

The political impossibility of the situation, moreover, is obvious. No self-respecting nation would allow absentee ownership of all its land and industries; and, on the other hand, no nation would look with favor on the investment by its own citizens in an immense amount of property abroad, which would make them waver in their allegiance because of their economic interests. Politically as well as economically, the attempt to pay debts by the transfer of one nation's property to another is excluded.

We come, in the third place, to the so-called "invisible terms" on which Mr. Hoover lays so much stress. That these items exist is undoubted. In all international financial relations we have to deal with the money in the possession of, or remitted by, immigrants; with sums expended by tourists; with profits on shipping; with bankers' commissions; with insurance premiums, and with interest on investments. Every elementary textbook of economics makes allowance for these. Ever since the time of Cairnes we have made the distinction between the balance of trade and what is known as the equilibrium of commerce. The balance of trade which refers only to imports and exports of commodities is a familiar concept. Exports must offset imports, imports must offset exports. If there is a surplus of exports over imports, we speak of a favorable balance of trade. But the equilibrium of commerce is a different matter.

Because of the existence of the so-called invisible items, the debits and credits between any two countries generally stand at an equilibrium when there is a definite excess either of exports or of imports. Great Britain before the war, for instance, received such immense sums as interest, freight, bankers' commissions, insurance premiums, etc., that its commerce with foreign countries as a whole was in equilibrium when she imported several hundred million dollars more than she exported. Her debits and credits in international trade were equilibrated through

an excess of imports. Her imports were paid for by her exports plus her profits. The excess of imports was due to profits consisting of these invisible items.

It is clear, therefore, that the existence of these invisible items does not disclose any added capacity on the part of a country to pay debts. If we start with a commercial equilibrium which includes these invisible items, the only way to pay a debt is to export more goods or more securities.

How was France enabled to pay her debt to Germany in 1870? First, of course, she had a large stock of gold which she turned over. Then she issued a great internal loan, the proceeds of which she remitted through the medium of bills of exchange. But the most effective method of payment was by immensely increasing her exports. The equilibrium of commerce between France and the outside world for the period prior to 1870 was, as in England, attained at a point where the imports exceeded the exports, the excess of imports representing profits on foreign investments. After 1870, however, the equilibrium of commerce stood at a point where the excess of imports was converted into a large excess of exports. France was able to pay the debt because her productive powers enabled her to convert an excess of imports into an excess of exports and to apply this excess to her indebtedness. Mr. Hoover's treatment of so-called "invisible items" fails to make this distinction between the normal balance of trade and the new equilibrium of commerce.

What is the situation in the continental countries of Europe? They have no gold to remit. They cannot send us their land, railroads or factories. They have no more securities of foreign countries to turn over, as England did during the war. There is no likelihood of any substantial increase in the invisible items which they could transfer to us. On the contrary, in the present perilous economic situation there is slight probability of their receiving additional sums on foreign investments or profits on a larger merchant marine, or gains through developing banks or insurance companies; and the sums yielded by a possible increase in American travelers abroad or in the sums remitted by immigrants to this country would be only a drop in the bucket.

It remains true, therefore, despite Mr. Hoover's statement, that the only way in which a foreign debt of any magnitude can be paid is through an exportable surplus. This means two things: First, that there is a surplus of social income; second, that the surplus take the form of exports.

In the present situation in Europe, however, there is no surplus of social income, and is not apt to be for a long time. People are prone to forget the gigantic ravages of war; never before in history has there been such prodigious waste of man-power and of capital. Despite the

slight improvement that is visible now, Europe has on the whole been steadily going down hill. Even in Great Britain the most competent thinkers maintain that Great Britain is living on her capital, and is not forging ahead. Certainly the continent of Europe as a whole is, economically speaking, bankrupt, and it will be a long time before the social income and outgo balance each other. And, in the second place, even when there is again a social surplus, the possibility of putting this surplus into exports will depend on unpredictable competitive conditions.

On one point, indeed, we may thoroughly agree with Mr. Hoover. Until Europe takes energetically in hand the question of expenditures, both government and individual, there is little hope. This means the stoppage of waste and the substitution of thrift for the riotous profligacy which has been the inevitable concomitant of war. It means, in Government finance, a drastic reduction of expenditures and the substitution of international co-operation for the sharp lines of extreme nationalism that have been drawn all over the continent.

But the accomplishment of this task depends on political forces. There is no hope of great decrease of armaments until a sense of security replaces the present feeling of suspicion. Again, it comes with especially bad grace from us in the United States, who have enacted one of the most extreme protective tariffs in our history, to preach free trade and international amity to Europe. Certainly, insistence by us on the immediate payment of debts will make matters worse than they now are. Can we blame France for saying that, if the United States and Great Britain demand payment in full of the indebtedness, she will certainly not be overgenerous in her demands for reparations from Germany? Reparations and Allied debt payment are inextricably intertwined.

The truth is that our debtors are bankrupt. They cannot pay now, and will not be able to pay in any assignable time. I have found no prominent business man or banker here or abroad who believes that there is any possibility of paying the debts. You cannot extract water from a stone.

3. WILL IT BENEFIT US TO BE PAID?

But even if the Allies could pay, the final question arises: Should we demand that they pay now and forthwith? If they have the ability to pay, have we the capacity to receive?

Mr. Hoover seeks to answer this question in the affirmative by telling us of the three-cornered trade; of the fact, familiar to every tyro, that a nation in international trade may acquit its obligations to another country by transferring the debits to a third country, which stands in an opposite relation. Mr. Hoover endeavors to quiet our fears about the danger of European countries exporting to us a surplus

of manufactured goods, which would stop the wheels of our industry, by saying that this surplus may come in the shape not of competitive goods, but of raw materials, which we need—rubber, silk, coffee, cocoa, or what not.

When I read this section of Mr. Hoover's speech I had to rub my eyes in astonishment. For, as it is clear on reflection, there is a fallacy in the argument. Will Europe be able to send more manufactured products to the tropics unless she has an exportable surplus? And how will an increase of European exports create a proportionate augmentation in the capacity of the tropics to supply, or in the readiness of the United States to demand, more raw materials? Let us concede, however, that the tropical countries will send us more rubber, tin, silk or coffee, and that the European debtors will send their manufactures to the tropics instead of to the United States. What will then happen, may I ask, to our exports of agricultural implements, electrical apparatus and textiles to China, South America and Africa? If the rubber and coffee are sent out by them to pay for more industrial products received from Europe, what will there be left with which to buy industrial products from the United States? It makes very little difference to us whether the wheels of industry are stopped here because of the plethora of exports of manufactured goods from Europe into the United States or because of the inability of the United States to send its wares to the tropics. In both cases there will be a falling-off in the demand for our products.

No explanation can obscure the fact that, despite the three-cornered trade, a nation's commerce must be envisaged as a totality. If the rest of the world pays a debt by exporting more goods, whether to us or to another country, it makes it harder for us to export the usual quantity of goods in return. The reason why, under normal conditions, exports are mutually profitable, is that the exporting country is thereby enabled to secure imports, that is, to buy commodities. It is a matter of give and take. But when, in order to pay an immense debt, the rest of the world has to increase its exports to us, there is nothing to call for imports in return; and with this cessation of our exports to foreign countries our factories will close, our industries will languish and a period of business depression will set in.

The most striking example of this state of affairs in international trade is the recent transfer of the German merchant marine to Great Britain. The average man thought that that would be a great thing for nothing. But what was the result? First, there was such a drop in freight rates that stagnation was brought into the shipping business. Secondly, shipbuilding in England fell off to such an extent as to lead to a crisis in the industry, with a wave of unemployment sweeping over the country. Instead of being a blessing, it proved to be a disaster.

What is the real trouble in the United States, with wheat at a little over $1 a bushel and with depression in our industry? How long will it be before the American farmer realizes that our debtors are also our customers, and that we cannot expect any resumption of prosperity unless there is a market in which to sell our wares? Even if it were possible to compel our Allies to pay their debts, it would make the situation here still worse. In business life the best way to deal with a bankrupt creditor is to set him on his feet again. But there is a difference between public and private business. In private business, even if the bankrupt is not put on his feet, the creditor can at least find new customers and continue to dispose of his output elsewhere. In public business and finance, as in the present situation, it is different: we must either convert these bankrupt nations into good customers or have no customers at all. By saving them we save ourselves.

The trouble with the Debt Commission law is that the hands of the commission are tied. It was a concession to the ignorance and the prejudice of the average voter. While I am sure that Mr. Hoover is entirely sincere in his belief, I suspect that he is largely, even if unconsciously, influenced by the politics of the situation and what he believes to be the general sentiment of the country. The situation here is analogous to that in France, where the business men and the economists will tell you privately that they do not at all agree with the views enunciated by the politicians who fear to brave the popular wrath. What we need in this country is a more thorough study of what Mr. Hoover concedes to be the complex elements in the problem. When that study is made, it will in my judgment lead the American people to the conclusion that they cannot afford to press for an immediate repayment of the debt, or even for such a refunding as is contemplated in the law.

The debt cannot be paid, and if it could be paid it would harm us more than our debtors. As a matter not simply of equity, but of good business, let us study the matter further. We must not harbor the delusion that we can any longer be sufficient unto ourselves alone. More and more we shall have to depend on our exports, whether of raw materials or of manufactured products. Let us not, in the excess of our zeal, kill with one stone two birds each of which we should seek to keep alive—the one, the hope of European regeneration in the interests of a broad humanity; the other, our own prosperity, which will surely be imperiled by the ruin or the ill-will of our best customers.

As We Forgive Our Debtors

(Editorial in the *Independent*, December 31, 1921.)

Discussion of the possible remission of the debts owed by the Allied nations to the United States Government is complicated by two elements which interfere with a straightforward examination of the ques-

tion upon its intrinsic merits. In the first place, the discussion is usually throttled at the very outset by the thought that, whatever might be said in favor of such a proposal, it is a waste of energy to discuss it because there is no chance of Congress assenting to anything of the kind. And secondly, any raising of the question is almost sure to be met by the charge that it is the result, directly or indirectly, of instigation by Great Britain, France, or some other of the debtor nations.

As regards the first point, it may well be said that, whether or not there is any chance of Congressional approval, it is fitting that the nation should give to the subject the consideration which its high importance demands; and further, that in matters of this kind appearances are often deceptive—things seemingly out of the question in advance of public discussion become possible enough as a result of it. And as to the second point, it should suffice to remark that there are in this country a large number of persons of the highest standing as citizens, as thinkers, and as men of affairs, who heartily believe that a remission of the Allied debts by the United States Government would be a superb stroke not only of humanity but of statesmanship; who are convinced that, to say nothing of its benefit to other nations, it would turn out a most excellent investment for the American people; who earnestly express this view in private conversation, but who refrain from pushing it in public owing to the feeling that its advocacy would be practically hopeless; and who, if they did give voice to their opinion, would do it solely of their own motion, and without any outside instigation whatsoever.

THE QUESTION ON ITS MERITS

Setting both these considerations aside, therefore, let us endeavor to look at the question simply from the standpoint of its inherent merits. During the Great War, after our entrance into it, the United States lent to Great Britain, France, Italy, and other countries which were fighting the common enemy some ten billions of dollars. None of these countries can claim that it is our clear duty to remit the debt thus incurred by them. They knew what they were doing when they incurred it; they entered no qualification as to its binding character. If the debt is to be remitted in whole or in part, this must be because that course is felt to be right by the United States either as a matter of its own feeling of honor, as a matter of humanity and good will, or as a matter of enlightened self-interest. The question is whether there is sound reason for so feeling on any or all of these grounds; and we believe that the answer is that there is such reason on all three of them, and that the united force of the three makes the case conclusive.

WHEN AND HOW THE DEBT WAS INCURRED

It is well to remember that not one dollar of the Allied debt to the United States Government was incurred until the United States became

a participant in the war. Before that time considerable sums had been raised in America by the Allied Governments by means of securities taken up by individuals in this country; but these do not enter at all into the question. It was not until we became to all intents and purposes allies of the European Entente Powers that any advances were made by our Government to them. We threw ourselves heart and soul into the struggle; it was the splendid manifestation of American power and heroism that brought the conflict to its victorious close. But it was the better part of a year before that force was put into play, and it was only during the last few months of the war that it was thrown into the scale in decisive fashion. Our allies, during that year of waiting, were continuing to pour out both their blood and their treasure as they had been doing for two and a half years before; during which two and a half years we had been growing rich at an unparalleled rate while they had been suffering the most exhausting possible drain upon their resources, material and human. The money—or rather, money's worth, for the money was all spent in America—which we were sending over to them was maintaining the armies that were holding the ground against our enemy until our own forces could be brought to bear. Had our men been on the battle line, as they were afterwards, the cost to us would have far exceeded the amount that we advanced to our allies. Our service to them was beyond all computation; it made the difference between victory and defeat. But if—as surely every true American feels—the victory was not merely their victory but ours as well, would it not be the part of a high sense of honor to feel that the money we lent them before we began to fight should be regarded in the light of a contribution to the common cause, which we should not be willing but glad to assume as our own?

AN OBJECTION CONSIDERED

Before leaving this aspect of the question, it may be well to say a word about one objection that deserves attention. It has been urged against a remission of the debt that the precedent set by it would make international borrowing in time of war impossible in the future. But the force of this objection disappears upon examination. Nobody imagines that the precedent would have any influence upon the possibilities of ordinary international borrowing, in time of peace or of war. It would only affect a case in which nations were banded together in a great cause, and the borrowing was an incident of the common effort. And in such a case it will be all the better that the nations should clearly recognize, what in the nature of things must be the fact, that the obligation of the debtor is not to be regarded in the stern and rigorous spirit in which debts are usually viewed. Indeed, it would be best of all that any great and wealthy and comparatively unscathed member of the alliance should frankly from the outset view its contingent of finan-

cial assistance as a contribution to the common cause rather than as a loan to be repaid however great the hardship and inequality that repayment might entail.

Humanity and Good Will

On the side of humanity and good will, the case is so plain that words are almost needless. The only answer to it is to be found in the much-abused maxim that charity begins at home—a maxim too often translated into practice as though it read that charity begins and ends at home. Our sufferings in the common cause were so slight in comparison with those of our allies, our material condition is so immeasurably better than theirs, our difficulties are so trivial alongside those with which they have to cope, that a policy of generosity in regard to the money they owe us must instinctively recommend itself to any large-hearted and large-minded American.

Enlightened Self-Interest

We freely admit, however, that if there were nothing to be said for the proposal except that it is what a high sense of honor and a generous regard for friends in distress would dictate, there could be no practical chance of its adoption. High sense of honor, generous regard for friends in distress, its opponents would say, are all very fine; but the American people are not going to be taxed to the tune of half a billion dollars a year in order to gratify those sentiments, however beautiful. But fortunately the case is fully as strong from the standpoint of enlightened self-interest. The prosperity of Europe, its return to a normal state, is a prime essential of the return of our own prosperity. The removal of the burden of that ten or eleven billions of debt would have a wonderfully stimulating influence on European financial and industrial conditions. Moreover, it must be frankly understood that, so far as the immediate future is concerned, the remission of the debt would make little difference in our own finances; for is it not pretty generally agreed on all hands that the United States will not press for payment even of interest, to say nothing of principal, and that no country except Great Britain will make such payments for years to come? The case of Britain, moreover, is peculiar, in that she has always stood ready to cancel the debts owed to her by her allies if we did the like by her debt to us; accordingly, our cancellation of Britain's debt would redound to the benefit of France and other hard pressed countries, and act as a two-fold relief to the world. Broadly speaking, what would happen if we were to remit the Allied debts to us would be that we should make no great sacrifice in the way of immediate revenue; our sacrifice, such as it was, would have reference practically to a remote time—a time when circumstances might have so wholly changed that no one can say with any confidence what will really happen. And it is the opinion of

many of the most competent and sober judges that, whatever we may do at the present time, we shall in the end let the debts go.

Now the point is that this is the time when the world stands in desperate need of relief from care and depression and uncertainty; this is the time when the revival of industrial and commercial and financial energy is of infinite importance; this is the time when anything that gives Europe a big shove forward will be reflected in a tremendous advance in our own prosperity; and this is the time when we need that advance more than we have ever done since the dark days of 1893-7. And that is one great reason why cool-headed leaders in the financial world feel convinced that the best possible investment that America could make of ten billion dollars, the best possible investment in a strictly material sense, would be to lift that debt from the shoulders, to exorcise the worry about the debt from the minds, of the European peoples.

THE MORAL EFFECT MOST POTENT OF ALL

But there is in the case a broader consideration, a more potent element, than even this. The direct financial relief to the several nations whose debts were canceled would, we are convinced, represent but a small part of the beneficent influence which our act would exert upon the world. It would be hailed as an evidence of magnanimity, of largeness of heart and largeness of mind. It would operate—just as Mr. Hughes' opening speech at the Conference did—to confound cynics and pessimists, to hearten those who do not despair of the world's future. The degree in which such heartening would quicken the economic life of the world is quite beyond the reach of any ordinary commercial or financial calculation. What the world needs above all else, for its economic no less than its spiritual restoration, is a return of confidence in the better side of human nature, a revival of the instinctive feeling that things are making for good and not for evil. What could give a more powerful impetus to all this than a conspicuous act of generosity on the part of the richest and most powerful of nations?

It has sometimes been suggested that any remission of debts on our part should be accompanied by the condition that a corresponding amount shall be deducted from the reparations levied upon Germany. We do not believe that any such condition should be imposed. To do so would be largely to destroy the grace of the act itself, and its grace is a large part of its value. But we believe that the act would inevitably conduce to a more liberal and generous attitude toward Germany; it would give tenfold force to any just plea that might be made for relieving Germany of a burden too heavy for her to bear. France, too, would feel that from the standpoint of her own self-interest it would be folly to insist on keeping alive indefinitely a sense of intolerable hardship on the part of the country which has been her mortal foe

but with which she has now to find means of living on terms of amity or at least of economic harmony. The example of the United States, the success (even from a selfish standpoint) that had attended her large-minded action, would exercise a steadily growing influence, and would do more than oceans of discussion and diplomacy toward humanizing the relations between Germany and France. Our act, primarily one that related to dollars and cents, would produce its greatest effect not through the pocket-book but through the heart and the mind. It would be a master stroke, fully matching in beneficence the scrapping of our ships and the initiation of a new instrumentality of reasonable intercourse between nations. And we believe that, if its vast potentialities of good are brought fairly before the American pople, they will view the question in no small or short-sighted spirit, but will rise to the height of the great issue.

Europe's Pressing Need

(Editorial in *The Independent*, pages 183-184, October 14, 1922.)

The question of the American attitude toward the Allied debt has reached the stage of national argument. So long as it was discussed purely on an ethical plane it did not get far in this country. This is natural, not because America has ceased to be interested in ethical motives, but because the issue had been clouded. If it could have been said without fear of contradiction that the United States ought to have entered the war two years before April, 1917, and hence that for the space of two years the Allies, unassisted, were fighting our battles for us, our obligation to them would be plain. But that line of reasoning has fallen down. Phrases like "too proud to fight" and "he kept us out of war," as well as the earlier "be neutral in your thoughts," are still potent among large groups of persons, and there is little chance of reaching a general agreement to the effect that as a matter of simple duty the United States ought to forego collection of debts contracted at a time when this country was getting rich instead of sharing the task of repelling a common foe. If members of the American Legion could seriously urge using the interest on the British debt to us for the purposes of the bonus, it is easily seen that the question of ethics in this matter makes no universal appeal.

It is true that Mr. Thomas W. Lamont, in his eloquent address to the American Bankers' Association, kept the ethical argument to the fore. But it lost effectiveness at his hands when he said, speaking of America: "We have gained great power. With the power goes weighty responsibility. Have we discharged it? For the period of the World War, my answer is yes, a thousandfold." If such be the case, then the ethics of the matter is without meaning, and forgiveness of the Allied

debt must, aside from considerations of self-interest, be prompted solely by magnanimity.

Mr. McKenna, formerly Chancellor of the British Exchequer, also addressed the bankers on this important question. Speaking with great frankness, as he had a right to do, since he insisted that Great Britain was able and prepared to wipe out her debt to us, both interest and sinking fund, he dealt in fundamental economic facts. His simple argument had not been framed before with anything like the effectiveness which he gave it. And, while it was based upon certain assumptions about which there might be some disagreement, it was inspired so clearly by a disinterested desire to bring about better conditions that it deserves the most careful attention.

Mr. McKenna pointed out that the measure of a nation's ability to pay a foreign debt is determined by three factors: its cash on hand, its exportable surplus, and its foreign securities. By these tests he concluded that England, alone of the Allies, was so circumstanced that she could meet her indebtedness to us. One perfectly obvious point, which nevertheless has been slighted, received a fresh cogency through Mr. McKenna's treatment. If a country is obliged to pay most of its foreign debts by exports, there must be a demand for her goods up to the limit of her capacity to produce. Yet it is only in times of great emergency, like the World War, that countries are willing to be flooded by foreign products. Turning to Germany, Mr. McKenna expressed the belief that she could not pay the full reparations and that the one thing needed was to determine what she could pay now, require that of her, and then grant her a considerable period, say three years, in which she should not be called upon to pay anything. This would have a tendency to stabilize the mark and to bring that orderliness and security to exchanges generally without which international trade on any great scale is impossible.

What made Mr. McKenna's words so effective was the evident purpose behind them; he was not arguing the special case of his own country; quite the contrary, he kept constantly before his audience the broad view of a Europe which needed the most considerate treatment in order to be helped to its feet. There was an important inference which the audience was left to draw, namely, that with Europe in the doldrums the United States could not hope for the resumption of that prosperity to which it has been accustomed in the past. Now, we do not say that Mr. McKenna's presentation of the case is completely convincing. If, for example, Germany is trying to evade her responsibilities, then talk like this will only abet her villainy. Also, the suggestion of a three-year moratorium might induce Germans to ask for an easement of ten years, and so on. Yet, when all is said, Mr. McKenna has undoubtedly set Americans to thinking on this important question and has taken

the issue out of the realm of vague surmise. He has clearly shown that Europe needs the assistance of our best thought and action.

We rejoice that the argument for a reconsideration of the Allied debt has been placed on a basis where American citizens can speculate as to its wisdom viewed purely from the economic standpoint. For now it is likely to make headway. Yet it would be a pity if the argument of self-interest were allowed completely to fill the picture. Let it be used as a means to convince those who are insensitive to the appeal of duty. It is to be hoped that when the time comes for action the country generally will see what *The Independent* has continually urged for more than a year—that anything short of great generosity in handling the war debt to the United States would be a poor return for the mighty effort which our friends carried through for us while we grew fat on their life-blood.

Britain's Debt to the United States

(By T. B. MACAULAY in *The Independent*, page 47, January 21, 1922.)

The suggestion has from time to time been made in a number of the leading journals of the United States that Great Britain should transfer her West Indian colonies and Bermuda in part payment of her American debt. As these views are being widely quoted and canvassed throughout the States, may I ask permission as a Canadian speaking to Americans to make a few comments for the consideration of your readers?

Canada has no direct interest in the British debt. As one of the nations which compose the Empire, she is united to the Mother Country by strong ties of sentiment, but she is also united to her great southern neighbor by strong ties of friendship, business, and constant intercourse. Canadians think, therefore, that they can view this matter impartially and in the kindliest spirit.

From the outbreak of the war Canadians have considered that the men of Britain and of the Dominions were fighting the battles of the United States as well as of our own Empire and of our Allies. In the early days of the war I have heard many Americans express that opinion. Though it took some years for your people as a whole to recognize that fact, it was as true in August, 1914, as it was later when the gallant boys of both nations were fighting side by side. Germany aimed at world domination and, had she won the war, her political and commercial control of all Europe, all Africa, and much of Asia would have been at once established. She would probably soon have made an alliance with the rest of Asia. She would have been the Colossus of the world. Her eyes were already fixed covetously on South America, and developments there would have followed rapidly. With the naval, mili-

tary, and financial resources then at her back, what would she have cared for the Monroe Doctrine?

We do not claim that the United States should have entered the war at its outbreak, for the people had to be awakened. It is doubtful if they were sufficiently informed as to the merits of the struggle prior to the Lusitania incident. What would have happened, however, if the United States had intervened even then? The war would have been shortened by two years, millions of lives and tens of billions of dollars would have been saved, and the condition of the world today would not be what it is.

When at last you threw your vast power into the scales, that great addition to the cause of civilization and righteousness was decisive. When you did act you acted vigorously, whole-heartedly, and effectively. We are all unspeakably appreciative of the part played by the United States in bringing the war to a conclusion. It was some considerable time, however, after you declared war before your armies were organized, trained, and transported to France, and during that period you could render but little help other than financial.

For whom did the Allies sacrifice the lives of their men before the United States entered the war, and from that date until the American troops arrived? For all who did not wish a German world, for all free peoples, including Britain, Canada, and the United States.

The war was fought not merely with lives, but with money. The financial burden fell chiefly on Britain. She had to advance huge sums to her Allies. Had she not done so, Germany would have achieved a speedy victory, and the turn of the United States would then have come.

If we Canadians are right in believing that the United States had as great a stake in the war before she entered it as afterwards, do you wonder that we ask ourselves whether it is fair that the Allies should bear alone the crushing financial burden of those earlier years during which your people accumulated much of the wealth of the world? Surely their awful losses in life, before the United States lost a single man, are enough of a handicap.

Americans are a proud people. I know that they do not wish in this matter to stand on legal technicalities. In coming to a decision, let them remember the stake they actually had in the early years of the war, and the purpose for which the money was borrowed in the later years. I feel sure that they need but to know the facts.

The suggestion has been made that even if the war debts be not cancelled the United States might accept from Great Britain a transfer of an equal amount of debts owing to Britain, but how about the others? Do Americans think that either Britain or the United States should exact payment from France, which has bled at every pore?

What would they think if Britain were to demand a transfer of some of the old French colonies in return for cancelling the debt of France to her? Britain will probably cancel the debts owing to her by her Allies without bargaining or reward. Can the United States afford to be less generous?

Lists of territories have been quoted, chiefly tropical, which have been as a result of the war placed under British control. Many of these will be for years to come bills of expense. In any case the Allies would gladly have given to the United States a generous share in these allotments had she been willing to accept. Even at this late date it is probably not impossible for her to obtain a share in the mandates, but of course she would be expected to assume the expense and responsibilities of governing, defending, and developing these territories, and not merely to share in any commercial benefits that might accrue.

The proposal, however, that Britain should transfer the British West Indies and Bermuda is something very different. To transfer these ancient colonies would be to begin the dismemberment of the Empire. Is that to be Britain's reward? Even if the Mother Country should be willing, and I am sure she would not, there are two further objections. I know these colonies fairly well. They are incurably British, and would violently protest at being taken out of the British family and transferred as if they were mere property. Furthermore, if there is to be any transferring, Canada considers that she has a first claim. The commercial relations between the Dominion and these tropical colonies are already important, and are becoming steadily more so. They are necessary to our future. The United States is indeed fortunate in that she has within her own boundaries vast areas of most productive land with all climates from arctic to tropical. We are not so blessed. These tropical colonies of the Empire are vital to us, and certainly not at all vital to you. Surely our American friends, who are themselves so fortunately situated, do not grudge Canada this small tropical connection?

It would not be fitting for a Canadian to speak here of Canada's sacrifices or services in the war. But of all the Allied nations that were in the war from the beginning, Canada alone has neither asked nor received reward of any kind. No charge of selfishness can be made against us. We ask nothing, and we want nothing. But we would protest against any settlement that would positively injure us, such as the transfer of our tropical partners to another nation. There can be no transfer except by the wish of the West Indians themselves, but if there is to be any transfer of these colonies do you not think that we have reasonably a first claim?

One of the strongest desires held by responsible men in Canada is to do their share in drawing ever closer the bonds of friendship between Canada, the American member of the British Federation of Nations,

and our great neighbor. To this end each should have a knowledge of the other's views and a sympathetic respect for the other's rights. For this reason I have ventured to set forth what is, I think, the Canadian attitude on these questions.

Cancellation of the Allied Debt

(By C. F. CHILDS AND CO., in the *Bankers Magazine*, Volume 102, pages 997-1001, June, 1921.)

Present opinion is partly biased and divided as to such a bold stroke as to cancel our fighting partners' debts to us, in spite of the fact that it would instantly correct the chief ailment and distress which beset the entire world. To consent to a mutual cancellation of the debt today would start up the commerce of all nations but if that cancellation or its equivalent is deferred five, ten, or even twenty-five years before we realize our mistake, we will in the meantime have paid the penalty and probably sacrificed our business prospects and foreign trade by many times the total amount of the debt.

After we entered the war we promised we would contribute any sum needed to win. To sustain the efforts of our allies, England suggested that we should lend directly to France and Italy, instead of lending to those countries through England as an intermediary. We insisted, however, that England should assume the obligation for our advances and she acceded to our wish. The credits we then extended no doubt made victory possible. What is our attitude today? In effect we state, "We are not going to ask a cent from our enemies, but we are going to demand the last dollar from our friends and Allies." The Chancellor of the British Exchequer recently said, "We shall meet our obligations and are making preparations to do so."

What sort of a situation will our attitude produce? If the annual interest alone on the Allied debt is $500,000,000, or say, $5.00 per capita of our population, is it to our advantage to receive that $5.00 annually at the expense and loss of our European trade, causing a congestion of our agricultural products, a slowing down of our industries, with men and factories idle? Who benefits by the $5.00 under such conditions? Certainly not the American people. If we want lower wages and hard times, then we should demand the full payment of the Allied debt which will force the Europeans to pay us with their goods and products. We will thereby keep down Europe's standards while we try to elevate our own. It is the old game of trying to lift ourselves by our own bootstraps. Europe must produce more and cheaper goods than we do in order to have anything to sell and they must be sold in competition against us if Europe is to pay us off. In fact Europe's goods are bound to be sold to us, for we are the best market today in the world and the one where the highest prices prevail. Europe cannot afford to buy other than the barest necessities from us, hence our exports will not

be in demand. High-priced, tariff-nurtured products will back up against us and stagnate our industries. In the end we will have lost enough business to more than offset the entire debt. Although our Allies will sell in our high priced market on a large scale, they will buy as little as possible from us if we legislate against them with a tariff. As the matter now stands the whole burden of receiving payment of the allied debt will be thrown upon our manufacturing industries, resulting in the destruction of many of them, whereas the net cost of debt cancellation would be relatively imperceptible through being prorated over the whole country. In any event a vast amount of foreign products will have to be absorbed by Americans to offset several billions of private credits already extended to Europeans and to pay for whatever they buy from us. To direct against our industries the additional flood of manufactures necessary to counterbalance our wartime shipments of ammunition and commissary supplies expressed today in terms of the Allied debt, will only make our present industrial stagnation worse and more permanent. When our foreign customers are hard pressed to pay even for those American products which they must have in order to exist, and when their purchases from us are five millions a day less than they were a year ago, it becomes difficult if not impossible to keep American factory workers employed.

We have emphasized above the advantages of a purely domestic nature which would follow upon debt cancellation or deferment for twenty-five years without interest. The political advantages for our nation are also important. We can create an asset of good will for American exports hardly obtainable in any other way. The policy of non-participation in the tangle of European affairs which the American people upheld last November will doubtless not be changed despite the renewed invitations of our Allies; but by canceling Allied debts we can accomplish at a stroke what will do the most to make our future interference unnecessary, present European political opinion notwithstanding. Let those who decline to surrender our claim without some offsetting benefit, remember that while our government will not interfere in purely European disputes, it will uphold its rights as a co-belligerent regarding mandates, use of German cables, etc., while adopting an enlightened financial policy designed to assist Europe to restore her credit and her former self-supporting activity. This recovery can be consummated if our readiness to forgive or defer the Allied debts is predicated upon the adoption of enforced economies in governmental expenditures by our former Allies. Also, European labor must be made to realize that its only hope of benefiting by the wave of new enterprise following upon such a settlement is to put forth honest effort. Finally, the disheartened European manufacturer of today must be shown that there is a definite promise of reduced taxes in America's action. It will take

little more than this, and the assurance of a supply of American raw materials, to induce the owner of an idle factory to take down his shutters and resume operations, even if he is obliged to mortgage his last free asset to obtain cash for his payroll. Europe's buying-power depends upon how soon she can "get busy." How else can America collect what is due her citizens if this is not done, and how can it be done without easing up on the Allied debts which stifle enterprise? Can it longer be doubted that ordinary business considerations favor outright cancellation, or at least wiping the obligations of our Allies off the slate for a period of twenty-five years or more. We have yet to hear a valid argument to the contrary from any banker.

The Inter Allied Indebtedness

(By THOS. W. LAMONT, in address before the meeting of the American Bankers Association, October, 1922.)

There is no concrete problem more vital for us to study with clear and generous vision than that of the so-called interallied indebtedness. In our discussions of reparations over here, the American attitude has, on the whole, been critical of the French for apparently not realizing more quickly the facts of the situation and thus drastically scaling down the reparations payments. In fact, many critics over here have been advising France to forgive a good part of the German debt. To these critics Frenchmen have not unnaturally replied: "It is easy for Americans to advise us to forgive German debts due to us in repair of the frightful havoc caused by Germany upon our homes and industries; but what about America, in turn, doing a little of the debt-forgiving business, especially as the debts that were contracted with the American Government were made in order to enable us, in large measure, to do America's fighting before her own soldiers got into the firing line."

Suppose we put to ourselves, in all seriousness, that point that the French have put to us, namely—"Isn't it fair for us, inasmuch as we seem to be urging France to forgive part of the German debt in order to effect economic adjustments in Europe, to do a little forgiving ourselves?"

Let us, by investigation, determine what, if any, of these debts to our government are in any event uncollectible, and so should be written off in order to "quit fooling ourselves." Let us decide what others of these debtors are good in part but must be given ample time to pay in—for longer perhaps than twenty-five years. Emphatically, let us figure to see whether the payment of these debts (which inevitably must mean a great increase in our import and a heavy decrease in our export trade) is going to prove an asset or a liability for American business.

Then, aside from these phases of the question, there is another one for us to study, which has practicality in it and also some sentiment. It is based on the following fact, namely, that about one-half of the total indebtedness shown in the foregoing table was contracted between April 4, 1917 (when Congress declared war against Germany), and the date a year later when the American army for the first time got its soldiers into the trenches in any considerable numbers. Can it not, with much reason, be argued that whereas during this period of one year, we were wholly unable to furnish soldiers to fight our battles for us, at least we were able to furnish arms and munitions? We did furnish these, but not as a free contribution to the war, for during that period the Allies were purchasing these commodities in America and were paying for them by contracting the debts just described. Ought, therefore, any part of this first half of the debt to be cancelled by the American taxpayers?

If someone on April 4, 1917, had been able to give us our choice as to whether we should rather give up freely and for all time five billion dollars in money or give up the lives of several hundred thousands of our sons, there would have been no hesitation as to our choice. Fate determined that Great Britain and France should give up the lives during that first year, and that we should furnish, not our blood but our money; taking, however, in place of it the promises-to-pay of our Allies.

America's record is a noble one. Who can forget the colossal sums for relief that our people freely gave, during the war and after?

Yet with all this splendid record of liberality and accomplishment, I again put the question whether you and I and our fellow citizens generally are doing our full share to solve the weighty, the tragic questions that are weighing upon the world?

I make no appeal to you for the immediate material aid of the world that lies beyond the Atlantic and Pacific. I make appeal to you, and to myself, for something far more rare—for our assurance to them that we are with them in mind and in spirit in the solution of their difficulties: that we are once again ready, as we were in the Great War and as our forefathers have been for 150 years, to suffer if need be, and to yield up something of ourselves in the general cause of world justice and peace.

War Debts and Reparations

(By RIGHT HON. REGINALD MCKENNA, Chairman of the London Joint City and Midland Bank, Ltd., London.)

There is no matter of more deep concern to the world's trade at the present time than reparation payments and international debts. I speak as a banker expressing my personal views. I have nothing to do with politics and I do not appear in any representative character.

What we have to investigate is not Germany's capacity to produce wealth, but her capacity to pay foreign debt. Nobody has ever doubted Germany's immense power to produce, but production by itself is not enough. She must find a market for her exports.

These international debts are far too great for the capacity of any of the debtor countries except England. She alone in her accumulated foreign investments has adequate resources with which to discharge her liability to the United States.

Of the others, France has the greatest resources, but they are, I believe, quite insufficient to meet her obligations. The whole subject requires a rational reconsideration by the creditors, who must keep steadily in view the immediate effect of the payment of these debts on the general trade of the world. The creditor countries will obtain greater advantage from trade prosperity, which will ensure future employment in their factories and workshops, than they can ever receive from the precarious payment of these debts. In the last two years we have had experience of the effect upon foreign trade of tumbling exchanges and broken-down credit, and though the consequences may be more serious in England than in the United States, where foreign trade is comparatively only a small part of the total trade, they are still grave enough in the latter country also to warrant the fullest and most careful consideration.

It may be objected that my argument appears to lead to the unpalatable conclusion that no nation, unless it has accumulated resources in the form of foreign investments, can discharge external obligations to anything more than a comparatively small amount. This is an objection which goes to the very root of the question of international loans and forces us to a consideration of the real meaning of an exportable surplus.

I cannot help thinking that there has been a general, though very natural, misunderstanding of the conditions under which international payments are made. In its present magnitude the subject is new. In the past we have been accustomed only to the discharge of comparatively small liabilities between nations which has been effected partly by the remittance of gold, and partly by an extension of export trade facilitated by a fall in the exchange of the debtor country, and it is not easy now to free ourselves from the ideas we have formed in the course of our past experience. Mistaken opinions on these economic questions are not surprising, but they are causing grave disasters throughout the world.

The conclusion to which I am driven is that Germany can only pay now whatever she may have in foreign balances together with such amount as she can realize by the sale of her remaining foreign securities; that this payment is only possible if all other demands are post-

poned for a definite period long enough to ensure the stabilization of the mark; and that future demands at the expiration of this period must be limited to the annual amount of Germany's exportable surplus at that time. Further, that England has the capacity to pay to the United States interest and sinking fund on her debt; but that the other debtors are none of them in a position to meet more than a small part of their external liabilities, and in the existing condition of Europe a definite postponement of any payment by them is desirable in the interests of all the parties. The actual amount which the other debtors could ultimately pay should, as in the case of Germany, be ascertained by inquiry into their exportable surplus at a full and frank conference between creditors and debtors.

If I have become convinced that an attempt to enforce payment beyond the debtor's ability is injurious to the international trade of the whole world, lowers wages, reduces profits and is a direct cause of unemployment, the conclusion is founded solely on economic grounds and is uninfluenced by any political considerations or any regard to the moral obligations of the debtors. I know very well that there are other considerations affecting these debts, but these are matters of statecraft to be determined by the rulers of the creditor countries according to their view of wise policy, which covers many interests besides those of trade and finance.—Extracts from Address before the American Bankers' Association, October, 1922.

The Cancellation of the War Debts

(By JOHN H. CLARKE, former justice of the Supreme Court, in address before the Cleveland Chamber of Commerce.)

I have slowly but definitely come to the conviction that both the political and business welfare of our country require that loans made by our government to the governments of our Allies during the late war should all be promptly and wholly canceled.

One fact fundamental to any discussion of this subject is that if we do not cancel the loans we shall never be able to convince these now friendly nations that the United States ever accepted its fair share of the burden of the war, and if the process of collection shall go forward this conviction will deepen into enmity with everyone of these most important nations of the world—with all that this implies.

After we entered the war our government did all that was humanly possible to aid in the common cause, but our first and indispensible service, the only one that we were able instantly to render, was to furnish to our all but financially exhausted Allies the nine and one-half billions of dollars which we are discussing today, to enable them to hold the battle line until we could come to aid them.

Because we are not asking the Allies to share in the cost of equipping and maintaining our army some men argue that they should not object to returning the contribution we made to the cost of maintaining

theirs. But the cases are wholly different. In length of service, in loss of life, even in money spent, the sacrifice of our Allies was much greater than ours.

As a matter of sound business the loans should be canceled, because it is not possible for any of the Allies, with the exception perhaps of Great Britain, to pay even the interest, much less the principal, of its loan while meeting the necessary expenses of carrying on its government, without which Europe would fall into chaos.

Let us assume that our Allies may be able to pay if the time for payment is extended over many—say thirty to fifty years. Still, I think as a matter of sound business we should cancel the loans, because I believe that for us to accept payment in the only form in which it can be made would do us much greater harm than could possibly be compensated for by any benefits to be derived from such payments.

Any suggestions, even on the part of our government, that it would accept such payments, thus in kind, would put our institutions to a test to which they should not be exposed. It would mean ruin as certainly to employer as to employed. To pay with credits, at all, our debtors must manufacture in greater volume than ever before and, with markets restricted as they have been by the war, they must undersell us here at home and abroad. One mode of payment would be as demoralizing as the other.

These three nations are our best customers, especially for products of our farms. To compel them to pay the loans will impoverish them for many years to come and render them even less capable of buying from us than they now are.

We should tell the truth to the country. These loans are neither a moral nor a just obligation, because if they were paid we should not have borne our just share of the burden of defending the great, common cause; that our Allies are so financially crushed that it is impossible for them to pay us, and that any attempt to collect the loans will result, not in payment, but in the loss of the friendship and markets of these great nations and in their seeking other international friends and trade relations. Nations unable to buy sufficient food for their people cannot pay billions of debt. It is purely illusory for us to think of paying a soldiers' bonus or of reducing taxation with payments to be made by the Allies; and that payment, if it could be made in commodities, would demoralize our markets at home and abroad, and would so intensify and prolong the present business depression that any gain to be derived from such payments could not possibly compensate us for the losses we should suffer.

I think that the cancellation of the loans which I am advocating should not be unconditional, but rather on condition that our Allies shall release their debtors from war obligations to an equal amount, and thus give the impoverished world a chance to start business anew.

If we should cancel our loans to the Allies and each of them in turn should cancel all that is owed to it by any other ally and should credit the balance remaining on the indebtedness to be paid by Germany and Austria, it would go far, in the opinion of those competent to speak in such matters, to re-establish credit and exchange in Europe upon a stable basis, and very certainly it would be a contribution beyond estimate to the present future peace of the world.

Not a Penny for Ourselves

(By FRANCIS B. UPHAM in *World Friendship*, pages 19-20, March, 1922.)

There are some of us who would gladly favor the unconditional cancellation of the allied debt to America.

There is nothing due us; we have already been more than repaid for all we have expended. We have the results of the unparalleled service of our Allies for the maintenance of the ideals we are still pleased to call our own, service to the point of immeasurable sacrifice during many weary and uncertain months after war with Germany was declared and prior to our pitiably tardy entrance into that war. Were it not for Belgium, France, England and Italy—nominally our debtors to the extent of billions of money—the "things we have always carried nearest our hearts," to quote Woodrow Wilson, "democracy, the right of those who submit to authority to have a voice in their own governments, the rights and liberties of small nations, a universal dominion of right by such a concert of free peoples as shall bring peace and safety to all nations and make the world at last free," would have faced appalling disaster if not final ruin.

Even if this were not so; even if we were rightly content to think of a legal debt rather than a moral obligation; of contracts formally signed rather than pledges neither written nor spoken yet prompted by highest honor, we could not take the money due us with any satisfaction. We must remember the condition of those who would pay it and contrast it with our own. France has been bled white; England is bereft of the flower of its young manhood; Italy still staggers; Belgium is just now starting to build anew amid the ruins of its factories and farms.

If this is asking too much—if the desire for cancellation seems too idealistic—it should none the less be stated as the position which America would be glad to take if conditions would permit. The sermon on the mount with its ideals far ahead of our attainment could be read to advantage, even if we had no thought of attempting to apply it in its noblest details to practical matters of present day interest. Most

certainly the church should sound no uncertain note at a time when the foundations of the State are quaking and men everywhere are looking for that which is everlastingly safe and true.

Still, one need not yield so fully to commercial caution. If we admit that we cannot cancel this debt, we can at the same time even more emphatically admit that we cannot touch a penny of it when paid to be expended for our own pleasure or profit. We can take these billions and hold them as a sacred trust fund to be administered for all time for the benefit of staggering, suffering nations wherever they may be found. Bleeding Armenia need never again plead in vain; impoverished China or fever-stricken India need not dread as now they do the scourge of pestilence or famine; awakened Russia may be led to use its new found strength aright. Nations everywhere may be helped to reach ideals now but dimly seen.

In Favor of Cancellation

(By ALBERT STRAUSS, former Vice-Governor of the Federal Reserve Board in address before the American Academy of Political and Social Science, July, 1922)

As to cancellation of European indebtedness to our government, undoubtedly it should be done some day. It cannot be done conditionally; we cannot lay down the conditions of cancellation and then undertake to judge whether or not the conditions have been fulfilled. That would lead to suspicion, recrimination and ill will. But when conditions shall have become right we can actually cancel our claims.

In the meantime, debts that are not being paid impose no burden and while we are awaiting the ripening of events, our people will have an opportunity to try out some of the preliminary errors which politically it seems necessary to test by experience.

The time for cancellation will come when Europe is about ready, through the continuation of the great efforts required during reconstruction to begin repayment and it will then hardly be profitable to debate whether we are cancelling our claims because Europe, with due regard to the standard of living of her people, cannot afford to pay, or because we, with due regard to the full employment of our workers, cannot afford to collect, because, for one thing, we shall be acting for both reasons; the same conditions that will then make it possible for Europe to begin repayments, viz: her ability to export a surplus of commodities, will make it inadvisable for us to receive payment, which will be actually made in the form of commodities.

All this is in the future. In the meantime through discussion and still more through experience we are preparing ourselves for the day when a decision will be required and time is doing the real work.

The Cancellation of War Debts

(By OTTO H. KAHN, in address before the Advertising Club, March 15, 1922.)

What I suggest, then, is that without entangling ourselves by any "covenanted" association with the affairs of Europe we should effectively use our material and moral influence to aid in removing the causes which stand in the way of her stabilization and normalization. One of the means at our disposal toward that end is the huge indebtedness to us on the part of European nations.

I would cancel the allied war debt to America (to the extent that they are war debts) not as a free gift, but in consideration of, and return for, adequate pledges and appropriate action on the part of the nations concerned.

War Debts Should Be Cancelled

(By C. T. JAFFREY, president of the First National Bank of Minneapolis, in the *Wall Street Journal.*)

I am very strongly of the opinion that in order to bring back anything like normal conditions in Europe some plan must be brought about for the cancellation of the Allied debt. This country cannot expect to collect what is owing us unless Great Britain is able to do the same thing. The debts are so interwoven that it seems to me a deal should be made of the whole thing and have it settled in a way so as to bring back normal financial conditions abroad.

References—Negative

Can Europe Pay Her Debts

(From Article in *The Saturday Evening Post*, Volume 196, Number 3, pages 7, 93, 97, July 21, 1923.)

What Reasons Are Advanced in Favor of Cancellation of War Debts?

That the debts, though legal, are not moral; that the debtor countries are unable to pay; that it would injure us to receive payment; that cancellation would represent a contribution to internation amity and a guaranty against future war in Europe.

The cancellationists try to prove too much. They remind one of the man who refused to go to the theater because he did not believe in the theater; furthermore he had heard that the play was not good; in addition he did not have time; and finally he did not have the money. Apart from the men who have a financial interest in cancellation, cancellation is largely a frame of mind. It reflects a theory of international relations. It is a reverberation of the war spirit. It is a hypothesis of economics. It is a display of splurging sentimentalism. Finally, it is a political movement. Men who failed to settle the peace would like to reconstruct the world, and cancellation is a tool to that end. The cancellationists are a hererogeneous lot. Everything is grist that comes to the mill.

What is Meant by the Contention That the War Debts Are a Legal But Not a Moral Obligation?

This is a definite position with many cancellationists. Professor Seligman, conceding the legal obligation, asks: "But is the question of moral obligation the same? Is the Allied debt, then, a just debt? We advanced the money, indeed, in the form of bonds, and legally our position is impregnable. What we actually did, however, was to defray our share of a common burden which, if it were to be adjusted to a truly equitable basis, would make us not the creditor, but the debtor of the Allied group. To insist now on our pound of flesh is to take the part of a Shylock standing on his legal rights, not a high-minded partner in a joint and common enterprise."

To one who believes our position is immoral there is no purpose in discussing how much the Allies can pay or whether acceptance will hurt us. On this theory, we defaulted the day Germany invaded Belgium, betrayed mankind and for two and a half years coined brothers' blood into dollars. There is no basis for argument on such a proposition; one

accepts it or rejects it. One may, however, repeat the dictum of Burke that one cannot indict a nation. If we were traitors to our moral obligation, then we should not collect the war debts; but instead we should return the Allied investments sold in this country since 1914 and in addition pay the debts between the European Allies and bear the costs of reconstruction outside of those to be defrayed by reparations from Germany. This proposition puts us only a little higher—or lower—than the Germans.

If one does not believe this, then the war debts are a legal and moral obligation, to be collected to the extent of our self-interest. There is no middle ground in matters of ethics.

What Is the Plea for Cancellation As a Contribution to the Amity of the World?

It is agreed that the amity of the world stands in sore need of contributions. But would cancellation prove an effective contribution? The idea is that if we forgive our war debts the countries of Europe would forsake their animosities. France would lose her fear of Germany; Germany would cease to plot for revenge; Great Britain would discard her anti-Polish policy; the United Kingdom would forget the French airplanes; Italy and Greece would not each be envious of the power of the other in the Mediterranean; the Swedes would not covet the Aland Islands; Germany would be glad to give Memel to the Lithuanians, and these would be happy to have Vilna in Poland; Silesia would become the playground of Central Europe; the neighbors of Austria would take her into their partnership; Hungary would forego her resolve to restore the mastery of a thousand years; the Rumanians would return the loot to Hungary; the Croatians would love the Serbian king; the Italians would give Fiume to the Jugo-Slavs; the Greeks and Turks would labor in peace for the restoration of the Levant; the Turks would thank the British for developing the oil fields of Mosul; the Armenians would have a country; anti-Semitism would cease; Russia would love the little states that split off for independence; everybody would give back to China everything stolen from her. For the diseases of centuries our debt cancellation would be the single and effective panacea! The lion and the lamb would lie down together if we gave the lion a bone and the lamb a wisp of hay.

This is inversion of the order of things international. The war debts are the latest irritations between nations, and the smallest. Erase these —those that have led to the wars of centuries remain. The moral regeneration of Europe must come from the inside. It will not be achieved from the outside by so trifling a salve as the cancellation of war debts. The nations of Europe would still be left just where they are. Free of obligation to us, they would be more free to follow their rivalries. The hard pressure of debt is a part of the realization that war must be

paid for; it acts as a deterrent of war. International amity is not a matter of money, a thing with a price. If the war has not taught the need of amity, cancellation of war debts would be futile. Eventual cancellation might be the reward of world-wide peace; it cannot be the cause of it.

What is the basis of the assertion that our war loans are in reality the sign that we have been a profiteering nation?

First, that we did not enter the war in 1914, and made huge profits selling supplies up to the time of our entry into the war. Secondly, that the volume of war trade was very large and very profitable. There is much loose exaggeration in the discussions. Professor Seligman says: "The fortunes made in this country were stupendous—We reached the dizzy heights of untold prosperity. . . . . We heaped up wealth while the other countries lost it." Added to the asserted fact that we made these enormous profits, Professor Seligman further makes the statement in undiscovered history that "had we been in the war from the beginning, we also should have been hovering on the brink of bankruptcy. Instead of being able to count the ten billion as assets, our Government probably would have been in the position of owing ten times ten billion as our share of the cost of the war."

What are the facts of this war business? Our excess of exports to Europe during the period of the war was roundly $18,000,000,000. Possibly another $1,000,000,000 worth of materials was sent over by the Army and Navy without record. In this country Great Britain bought some $12,000,000,000 worth of goods and borrowed $4,000,000,000. Is one to imagine that the sales and loans were both largely profits? Are we to believe that the $10,000,000,000 loaned to the Allies corresponds to the profits on the transactions eventuating in this balance of exports? That was certainly cost plus with a vengeance! The income taxes are to be subtracted. The industries passed indirectly from war boom into the boom of the upturn period of the business cycle. In the last two years billions have been written off from inventories and the losses must be substracted from the profits. The railways lost in war operations an amount estimated at $1,500,000,000. The highly paid war workers had later long periods of unemployment. The postwar slump took from the farmers the largest part of their war profits. Of the paper profits of the war the largest part is gone and the flight of war profits must be sought in the war itself. To picture the people of the United States as cashing in war profits in the collection of war debts is sheer drawing on the imagination to erect an argument. No one knows what the war profits were or how much are left.

DID THE WAR CONVERT THE UNITED STATES FROM A DEBTOR NATION INTO THE GREATEST CREDITOR NATION IN THE WORLD?

This is another exaggeration frequently used by cancellationists. Professor Seligman says the war "changed the United States from the chief debtor nation of the world to the chief creditor nation." This does not correspond to British views. According to competent British economists Great Britain holds still some $15,000,000,000 of her prewar foreign investments. If one adds the war loans to this sum, and subtracts her war debts, the figure is nearer $20,000,000,000. We have, outside of our $11,500,000,000 war loans, at the outside $4,000,000,000 foreign investments. According to Friday, prior to our entrance into the war European countries sold back some $2,000,000,000 of American securities. In addition to this they sent $1,500,000,000 of gold and sold here $1,500,000,000 of government securities. The Allies preferred to hold American securities and sell us their securities. Europeans still hold a large volume of American securities, especially Great Britain. In the international account for 1921, as tabulated by Williams, is the item: "Interest payable on foreign capital in U. S. $100,000,000." This amount of interest was due Europe from us after we brought back into this country during 1919 and 1920 some $450,000,000 of our securities formerly held abroad. Of the $100,000,000 outgoing interest on foreign capital in the United States in 1921, three-quarters went to Great Britain. This interest is practically half the amount of her annual debt payment. The United States must not indulge in a swelled head. Great Britain is still the leading creditor nation of the world. As the result of the war we are poorer, not richer. All nations have gone down the scale of wealth.

WHAT IS THE CLAIM FOR CANCELLATION OF WAR DEBTS ON THE GROUND THAT THE COSTS OF THE WAR WERE A COMMON BURDEN?

This piece of special pleading has been given particular prominence through the writings of Andre Tardieu. Each country was supposed to give what it had—France men, England ships, the United States supplies, primarily. Professor Seligman holds this view.

"If the war was a joint enterprise, carried out for a common purpose, is there any more reason to separate the financial contribution than the human contribution? If we are to charge France and Italy for the wheat that kept their forces alive, for the uniforms that kept their soldiers warm while they held the battle front, we might as well charge so much a man for the American Army when it finally arrived."

As to the last, it is enough to rejoin that in all wars in history supplies have been paid for; men, barring mercenaries, have not.

The proposition that the war was a common burden has been negated in these pages by Garet Garrett. It will suffice, therefore, to insist on a

few points briefly. In the first place, prior to our entrance into the war, the Allies did not between themselves regard the costs of the war as a common burden. Nor did they do so after we entered the struggle. Great Britain sold coal, steel, jute and shipping—to mention only a few things—to France and Italy for high prices, while lending them part of the money to make the payments. Great Britain and France did not feed occupied Belgium; they loaned her money to buy the foodstuffs that the C. R. B. distributed. France used her steel plants to make implements of war and fell behind in ship construction. After the war, ships were sold to France for handsome figures. The Royal Commission on the Wheat Supplies mobilized wheat for all the European Allies, but the unit cost was higher to France and Italy than to Great Britain, because shipping subsidies were not extended to the Allies. Czecho-Slovakia had soldiers fighting in Italy and France. These were supported not by France and Italy but on money loaned to Czecho-Slovakia by France and Italy. After we entered the war the system continued. When we carried Allied troops and tonnage we loaned them the money for the freight. When we sent men and supplies in British bottoms we paid the carrying charges, over $90,000,000. We paid in the United Kingdom, France and Italy for everything we bought there. Our cash payments to the Allies were in excess of $4,000,000,000. We held controlled prices on raw materials and the Allied governments paid us these prices. But we paid the British Government for wool, jute and other materials, not the low military prices, but the high civilian prices. We could not get the price of jute down to a proper level without threatening retaliation by refusing to supply silver for India; then the lower price was granted. We paid in France port taxes—never levied until after we entered the war—lighterage charges, rail mileage for our trains, damage to railways and roads. We left there huge public improvements, an almost complete loss to us, a large gain to France.

From first to last the charges of the war were not a common burden. Commercial bookkeeping was retained throughout. In France the peasant was paid a high price for wheat to feed the Army; the wheat grower in the other countries was paid a high price also. Each country sold supplies to its own military service and to the military services of the Allied countries. Civilian trade followed the same general channels. Because we put our men under Foch it did not follow that we put our treasury under the British Chancellor of the Exchequer and the French Minister of Finance. The theory of the common burden of the war is a theory outside the facts.

It is announced that the British Disposal Board has sold surplus war stores and materials in the sum of £650,000,000. Of this, the sum of £310,000,000 was realized on trading accounts. A considerable part of

this $3,000,000,000 of materials was purchased on credits from the United States, another part purchased in the world at low prices because the sterling exchange was pegged with dollars. This is one of the side lights on the common-burden-of-the-war hypothesis.

Behind this proposition is the implication that we did not enter the war on time, having therein neglected our part of the common burden. We should make up for it by extra outlays of men and supplies after we did enter. This implication no American can tolerate. We entered the war as soon as it became apparent to us that the purposes of German domination extended outside of Europe, and within Europe aimed at the Germanization of the Continent. Our late entry was not a delay in duty for which we had to pay extra as a penalty.

Finally, if such a proposition were to be entertained it is clear that this would lead not to cancellation of the present war debts but instead to a recomputation of the financial relations of the several Allies. Everything would need to be put into a common pool, with an agreed common accounting, a common cost plus, a common basis of division. We should have to put in the deterioration of our railways under war management, the Allies the same. The losses of postwar liquidations would need to be accounted for, including our Shipping Board.

Would such a computation apply to Great Britain or to the British Empire? L. L. Summers, in an address delivered in Washington in 1920, stated that during the war Great Britain profited to the extent of $1,600,000,000 from our controlled prices. That item would have to go in. By the pegging of sterling during the war, the British saved hundreds of millions in reduced prices. That would have to go in. Our total outlay for the war was about as large as that of Great Britain. Where such a recomputation of the costs of the war would lead no one can tell. We may be sure the Allies would be charged with many things that do not now stand against them. But no such recomputation is proposed. All that is proposed is that our loans to the Allies be canceled, our payments to them to stand. The common burden of the war is not a reason for cancellation; it is an excuse for cancellation. Unless one believes in cancellation for other reasons one cannot take stock in the proposition that the costs of the war were a common burden and that we should cancel the war debts because we are shy on our share.

It is very noteworthy that in the cancellation discussion of European writers they are clearly oblivious of the fact that our Constitution does not permit Congress to play with the people's money as is the case in most of the countries of Europe.

WHEN WE ARE WARNED THAT IT WILL INJURE US COMMERCIALLY TO ACCEPT THE DEBT PAYMENT, WHAT IS MEANT TO BE CONVEYED?

By different men and in different ways, one of four things is meant: That debt payment would make us take more foreign goods; that debt payment would compel Europeans to accept less of our goods; that debt payment would make us increase our excess of gold; that payment of debt would make us export capital beyond our good. These contentions may be theoretically true, and at the same time grossly exaggerated or practically false.

Part of the debt payments, presumably, will take the form of added goods, especially from the continent. It makes little difference if these goods come to us directly or go out on the markets of the world. We shall feel them just the same. In this sense the payment of reparations by Germany will have the same effect as debt payment by our European debtors. It would do us little good to exact payment in stipulated goods that are not competitive with our products at home. The competitive goods would go elsewhere in the world and meet our goods there. Whether pressing a debtor country to pay would have the result of forcing out competitive goods at lower prices than would otherwise be the case, can only be determined by trial, and cannot be foreseen. If the competitive goods are to appear on the market somewhere, we might as well take a part of them for nothing, since the competition would reach us in any case. The crux of the argument lies in the assumption that debt payment must result in dumping of goods to the extent of the payment. This is exaggerated and may be totally fallacious. In the one case the goods appear as payment of debt. In the other case the goods appear as payment for desired imports to raise the standard of living in Europe. The productivity lies in the potential of the debtor countries. If they do not make goods to pay debts certainly they will not let plants lie idle. If they can make the goods cheaper than we they will send them over under all circumstances. Since we have to meet the competition, we might as well take some goods in debt payment.

That debt payment would compel Europe to take less of our goods is again an exaggeration or a fallacy. Debt payment might make Europe lower the standard of living, reduce imports and increase exports. Some of these reduced imports might be our commodities. But do we know that Europe would take the imports from us if the debt payments were not exacted? Only in cotton do we hold a world monopoly. In foodstuffs, feeding stuffs, metals and minerals we must meet the prices of other exporting countries. If our prices are lower Europe will let the import restrictions fall on other countries. If the prices of other exporting countries are lower she would favor their trade in any event.

When advocates of cancellation state that the debts of the European countries cannot be repaid, does this include the private debts? If so, why have bankers who favor cancellation continued to market European governmental securities to American investors?

European governments owe our Government $11,500,000,000. European governments and private concerns owe American investors some $4,000,000,000. The final payment of both debts rests on the same footing. If the productive capacities of the borrowing countries cannot pay the one they will fail on the other. The ability of a debtor government to pay its debt to our Government rests largely on the ability of the foreign government to induce American investors to relieve our Government of the burden, unless they can resell to us our securities held abroad or ship us gold. Each additional $1,000,000,000 loaned abroad makes it harder for the European governments to induce American investors to take over investments corresponding to their debts. The European debtor governments find it harder to pay their $11,500,000,000 debts because our citizens already hold $4,000,000,000 investments in Europe. Therefore no banker who has floated European securities in this country ought to question European ability to pay her debts. He has assumed Europe could pay her debts when he sold European securities. There is no mystical line of demarcation between European debts to our Government and to our citizens. Eventually they will be merged and will work together abroad for the international account. When we loaned the $11,000,000,000 abroad we condemned it to foreign servitude.

If we should cancel loans due us because we felt we could not afford to accept payment with goods, what assurances would we have that the debtor countries would not still dump goods on this country? If the debtor countries have the manufacturing capacity to pay their debts with goods, what is to prevent them from using this manufacturing capacity to develop a world trade for the sake of profit?

Cancellation of debts would not protect us from foreign goods. If Great Britain, France and Italy have the manufacturing capacity and the mangerial talent to lay down goods in our markets at prices lower than ours, they will do so, debts or no debts. They will dump goods on us; they will undersell us in world markets. In other words, we do not build up a competitor by demanding payment of debts; the competitor is already there. Compulsion to pay debts could hardly prove a stronger stimulus to production than the lure of profit. By and large, the lure of gain will draw as much goods from European factories as the lash of exaction. Let potash be used as an illustration. We would probably not have to accept more potash in payment of debts than we shall have to accept on the basis of price. The goods that are cheaper than ours will enter in any event, barring tariff. The goods that are

dearer than ours could hardly be marketed in this country if they were offered in payment of debt. The goods that do not compete with domestic wares will enter in response to demand, debts or no debts. Goods taken in payment of debt would not be accepted in excess of current needs, and stored. The idea that by accepting payment of debts we create or build up a competitor that otherwise would not exist is largely a fiction. Europe is going to sell every pound of goods the markets of the world will absorb. It is doubtful if the markets of the world or the manufacturing activity of Europe would be materially affected by payment of interallied debts.

WHAT IS THE MANUFACTURING CAPACITY OF EUROPE, COMPARED TO BEFORE THE WAR?

Given fuel and labor on the pre-war basis—especially important as a qualification in France—the manufacturing capacity of Europe is notably increased as the result of plant expansion during the war. France and Belgium have lost, but all other countries have gained. It is incorrect to assume that plants were erected for the making of implements of war and scrapped after the Armistice. Plants that were enlarged were designed also for manufacture of civilian goods. There are certain pieces of equipment in steel plants used only for making guns and armor plate, and so forth. But for the most part the enlarged steel plants are adapted to a wide variety of uses. Plants that make explosives are able quite as well to make dyes and chemicals. Many strictly nonmilitary plants were erected during the war—flour mills, magazine factories, textile mills, magneto factories, and so on. In a word, the manufacturing capacity of Europe and the world is larger than in 1913, larger probably than it would have been at this time if the war had not occurred. The limiting factors are fuel, labor and markets.

IS THERE A SHORTAGE OF LABOR IN EUROPE, AND WHAT IS THE MEANING OF THE EUROPEAN LABOR SUPPLY FOR THE PAYMENT OF DEBTS?

There is a numerical labor shortage in Europe due to the death losses and the cessation of migration of workers. Several million men were killed, many more incapacitated. Despite this, there is no actual shortage of labor in Europe; quite the contrary, there is unemployment. But later, labor will be short in the countries that were engaged in the war. These shortages will be mitigated if migration of workers is resumed. Before the war large numbers of workers migrated from one country to another, and this movement was very important in the peak periods of workk in different countries. Hundreds of thousands of Russians worked in the fields in Germany; Polish, Italian and Hungarian miners worked in the mines. For the present, these migrations are suspended, largely by nationalistic fanaticism. This may be expected to subside when production is resumed on a larger scale.

To what extent shortage of labor may reduce the production of Europe and thus hamper her powers of payment of debts is conjectural. At present, with the shortened workday, the output of goods per day and even per hour is below the pre-war level in most industries. But this is surely a passing condition. When the will to work returns it will be found that productivity is increased in many industries because equipment has been greatly improved. If one goes back in five-year periods over the past thirty years one is able to measure immense strides in productivity. Despite war, and indeed in many directions because of war inventions, productivity has gone forward during the past ten years. Improvements will continue to be evolved. Under these circumstances it will not do to state categorically that the wastage of men in Europe will hold down her productivity for years to come. It is easily conceivable that in ten years Europe may have reached a new high plane of productivity. Certainly, if the men of Europe work in peace as they worked in war, they would accomplish more than they ever did before the war.

IS THERE A SHORTAGE OF RAW MATERIALS IN THE WORLD?

No such shortage exists. Because immense masses of materials were shot to pieces and worn out during the war it does not mean that a shortage of raw materials follows in consequence. On the contrary, the world held huge stocks of raw materials following the war. The weight of these stocks was one of the factors in the losses sustained by industries since the postwar boom. There is still a glut of rubber. The funded stocks of copper are not yet liquidated. The fibers worn out during the war—cotton, wool, linen, flax and jute—are soon replaced by agriculture. The unminded stocks of minerals and metals were, of course, reduced by the excessive wastage of the war; but that has no present significance. Against this one must set up the new deposits opened up during the war—coal, tin, copper, alumnium, platinum. There are more ammonium and sulphuric acid than before the war. Properly construed, the wastage of the war was in men, not in raw materials.

HOW SERIOUSLY IS ONE TO TAKE THE CONTENTION OF THE ALLIES AS TO THEIR POWERS OF PAYMENT OF WAR DEBT?

Not at all seriously. It all depends on whose ox is gored. The ability of Germany to pay reparations is one thing. Paying war debts is a totally different thing. At Paris in 1919 Lloyd George stood with the advocates of high figures, as indeed he had to do to fulfill his misguided campaign promises. Sixty billion dollars was a common interpretation of the indefinite terms of the Treaty of Peace. In London in 1921 the figures were definitely set at 132,000,000,000 gold marks—

about $33,000,000,000—and Lloyd George stated that he thought the figure fair. This was to be paid by Germany in something like thirty-five years.

The British War Debt Commission felt that 3 per cent interest on $4,500,000,000 and amortization in sixty years were severe terms. A few weeks before that, Prime Minister Bonar Law presented in Paris a tentative proposal for reparation payment. The British proposal for reparation was for 50,000,000,000 gold marks, at 5 per cent interest, payable semi-annually, the principal to be paid in before December 31, 1954. The interest payment was to have a moratorium of four years, the next four years at 4 per cent interest, the lapsed interest to form a second set of bonds to appear after the first 50,000,000,000 had been paid, if so decided by a commission of experts. This lapsed interest was to be compounded at 5 per cent, to begin as bonds in 1933 and to be paid off in 1962.

From this, one may infer that the British officially judged their debt-paying ability as one-quarter that of Germany. This is, of course, nonsense. It was to the economic interest of the British to jockey for as favorable terms as possible. Despite harsh criticisms in the British press when the settlement plans were published, the decision of the government to accept was based on the fear that delay might bring developments in American politics whereby the terms might be made less favorable.

The nearer one stands to the international debt discussion the more these transactions look like horse trades. The languages employed by the Allies toward Germany and toward us are so fantastically inconsistent that one is reminded of a Chinese New Year. Every credit is good, every debit bad. Was the Lloyd George scheme to make the figure for reparation large and then scale it down to ability to pay related to the idea of using this scaling-down process on our debt, placing the $11,000,000,000 in the same category as the 132,000,000,000 gold marks?

WHAT ARE THE REAL REASONS WHY CONTINENTAL EUROPE MAKES NO ATTEMPT TO PAY FOREIGN DEBTS?

Europe is in conflict. Each country regards itself as an under dog. Each country is committing reprisals against other countries, is trying to advance its commercial interests by destroying the commercial interests of other countries. Constructive co-operation between states is lacking. Within each country capital and labor are in contention, with resultant lowering of production. A redistribution of wealth has been going on, is still in progress, that converts business into a grab-all. In each country the saving class of tradition, the middle class, has been partly or entirely dispossessed of generations of savings. Budgets are a compromise between extortion and waste. Since continuity of state

policy its lacking, continuity of economic measures fails. Since contracts do not bind, commitments are not undertaken. The debtors pay off debt without being gainers, though the creditors be ruined. Blocs divide the parliaments. City and country have transferred their relations into piracy. Profiteering has become not merely good business form but routine. Existence is for the day, from hand to mouth. Individuals, classes and collective society have lost the normal sense of thrift and prevision, security for industry and safety for investments. Payments of foreign debts rest on prevision and thrift. With the home atmosphere full of repudiation, why hold faith abroad?

Are Cancellationists All of One Motive?

Quite the contrary. But the majority fly to cancellation out of perplexity. Certain states and trends in Europe impress the observer. State budgets are out of balance, government expenditures exceed revenues. In part this is due to excessive outlays for war-reconstructions, pensions, social developments, subsidies, losses on railways, padding of pay rolls, to say nothing of military spendings and political logrolling. In part, political authority is so low that forceful and effective taxation cannot be accomplished. Even thrifty neutral countries, like Holland, have not been able to balance the state budget. Imports are excessive, exports deficient. Consumption of luxuries cannot be controlled. Labor and capital are ineffective. With import of non-essentials stimulated by profiteers, import of necessaries has to stand the brunt of pressure. With production low, exports that would pay for imports are not in evidence. The monetary situation is very bad in Russia, Germany, Austria, Poland and Hungary, though more or less improved in the other countries. But the maladjustment hurts production and interstate trade. Trade is harassed by nationalistic hindrances at the frontiers—foolish countries under the delusion that they can profit by the injury of their neighbors. Class contest is very bitter. The middle class, the traditional class of thrift, has been more or less dispossessed in every country of Europe. Even in the most stable European country, the income of the middle class has been halved, the expenses doubled.

What is the Natural, Common-Sense Attitude of the Average American on Cancellation?

That the war was a part of the old political system of Europe, in which Germany had acquired a destructive prominence. That we entered the war to obviate the Germanization of Europe. That our entrance into the war did not represent our taking on their political traditions—we did not become a member of the concert of Europe. That having contributed to the defeat of the Germanization of Europe, the United States followed a normal course in withdrawing from the alliance with Great Britain, France, Italy and Belgium. That while Mr.

Wilson shouldered the responsibilities of the peace, the people of the United States never regarded the settlement of international European relations as our function in history. That the specific matter of cancellation of war debts is a problem of self-interest, just as interstate relations of Europe are a matter of self-interest. That we should be glad to cancel war debts if it were to our commercial interest to cancel, just as creditors release insolvent debtors when it is to their interest to do so.

Each taxpayer knows he will pay his share of our war bonds if the war debts are not paid. He is told that if we cancel the $10,000,000,000 war debts, the country will profit more than $10,000,000,000 in the gain of trade operations. This cannot be proved. But if it were proved as a proposition in theory, each man asks how his share in the gain is to be earmarked. He knows that he will be earmarked for his share in the taxes. What assurance has he that he will receive his proportionate share in the gains of cancellation? There is the hitch for the average man. He has the feeling that if gains did flow from cancellation these would be distributed among a small fraction of the population. He knows the taxpayer has the same feeling towards cancellation that he has towards ship subsidy, for the general commercial good. He wants to know where he personally comes in—or gets off.

The Repayment of European Debts to Our Government

(By HERBERT HOOVER, Secretary of Commerce, in an address delivered at Toledo, Ohio, October 16, 1922.)

Proposals have been repeatedly made over the last three years that the loans from our Government to foreign countries during the war should in part or in whole be cancelled, either for moral reasons or in the interest of economic stability. Less sweeping proposals have been made that the payments of interest and instalments as required by Congress should be further postponed or moderated. The question is one of the most complex and difficult in character that the American people have ever confronted. It greatly concerns American commerce and I feel that widespread discussion is of great value to the better understanding of the economic issues involved. Full understanding can be advanced only by full and frank discussion.

I have the feeling that many men in Europe are thinking of these things in terms of despair, due to their immediate difficulties. There is no need for despair in the future of Europe if she can maintain peace. Her hard-working population, her tremendous industries, her enormous productivity and her magnificent intelligence, her fabulous development of skill and scientific knowledge, are vital forces that must win if they have half a chance.

These economic problems are problems that we must vision over years and decades. They must not be obscured by fluctuation in ex-

change or by calculations of trade balances in terms of war and depression. Europe has made great economic progress since the armistice. Her troubles today are solely in the political and fiscal field. Her social organization, her agriculture, industry, transportation, and commerce have found extraordinary recuperative powers from the depths of disorganization and famine of 1919.

These loans to twenty nations amounted to about $10,000,000,000 and were nearly all demand obligations. They now amount to $11,500,000,000 in principal and accrued interest. Congress has laid down the conditions under which payment can be extended over a term of twenty-five years. It is the duty of the Funding Commission to see that these terms are carried out, and of course no alteration would be possible except through action of Congress.

There are certain phases of this discussion that seem to me to require emphasis.

First. These loans are often spoken of as debts to our Government. They are, in fact, debts owing to our taxpayers. These loans were made at the urgent request of the borrowers and under their solemn assurance of repayment. The loans were individual to each nation. They have no relation to other nations or other debts. The American taxpayer did not participate in reparations and acquired no territory or any other benefits under the Treaty, as did our debtors. There is no question as to the moral or contractual obligation. The repudiation of these loans would undermine the whole fabric of international good faith. I do not believe any public official, either of the United States or any other country, could or should approve their cancellation. Certainly I do not.

Second. While it is probable that some of the weaker debtors will need relief from interest, yet I am convinced that the capital sum of these debts can be paid some time with the exception of say 5 per cent. I am also convinced that this can be done without realization of the oft-expressed undue strain on the debtor countries or the threat of a flood of goods from debtor countries in such quantity as would endanger employment of the factories and workmen of the United States. In the arguments put forward on these points some very important economic factors have not been given sufficient weight.

Third. The proposals for abolition or reduction of interest for a certain number of years arise from the belief that certain countries cannot physically make these payments at the present time without undue strain, or that such action would contribute to general economic stability and the more rapid recovery of these countries, in which every one would benefit. The British do not make claims for such assistance from us and are arranging their payments. This covers some $4,750,000,000 of the total debt and thus clears up nearly one-half of the prob-

lems at once. The proposition, therefore, narrows itself to debtors on the continent. The burden of payments falls with different weight upon each of the nineteen different debtors and each case is a problem to itself, and it will be found that respective annual payments due to us from different countries vary in their burden upon them from 2 to 12 per cent of their governmental income.

Fourth. If there be some of these countries who should be relieved of interest payments for a few years in order to promote economic stability, then there needs be a demonstration of the facts in respect to each individual country that would be convincing to the American public and to Congress. The taxpayer will naturally need conviction that such postponement would bring returns in economic progress that would warrant such a sacrifice. He would naturally consider that there are other things which must march in advance before the fullest prosperity can come to Europe. For stability and prosperity require that there must be such political and economic readjustment between the states of Europe as will bring about an atmosphere of peace in replacement of an atmosphere of war. There must be rearrangement of economic boundaries in Europe that will give hope of the economic survival of states which can be saved by no financial operation of any kind. There must be a reduction of armament not only as a guarantee of peace but as a contribution to the balancing of budgets and the cessation of inflation. There must be a general intent to create good will and peaceful working together among the nations to their own reconstruction instead of constant recurrence of political crises which so narrowly escape war and so sadly disturb commerce. All these things would assure the complete recovery of Europe. They would also place Europe sometime in a position where our loans would be but a little burden.

Fifth. America has dealt with Europe during the past few years in terms of idealism. We do appreciate her difficulties. We are capable of great sacrifices and of great generous charity. We want to take part in making a better world, but it must be clear that sacrifices and charity from America can not alone bring about a cure for those evils which now work against economic progress. What the American people would do in the circumstance that the forces of real world peace and prosperity were put in motion, could be looked forward to with confidence. Our record to date has been one of helpfulness.

A great deal of current discussion as to the inability of the countries on the continent to meet payments of these debts in any case has revolved upon the working of intricate economic forces.

In arguments advanced that the loans must be cancelled, the claim is seldom made that the payment can not ultimately be provided out of taxation or reduction of expenditures in the debtor country, and payments made in the local currency of that country. The economic con-

tention is that such currency must be transformed into goods or gold in order to be shipped to the American people. The arguments against payment nearly all bear upon the difficulties that this transformation implies, and in them there are a large number of premises which have not been argued from all sides.

These premises include: That the only method by which payments can be made in international balances is through the shipment of goods or gold; that these shipments would necessarily be direct from the debtor country to us; that such shipments might embarrass our industries and employment; that the capacity of a given country to pay international obligations is dependent upon its ability to produce a surplus of goods for export over and above its necessary imports; that present trade balances should be taken as an indication of future paying power. It appears to me that the whole of these assumptions as to the relation of debt payments to us to the movement of goods need to be seriously modified by other large weights in the international balances.

The settlement of international balances between America and Europe contains factors that are in their volume unique in international commerce. For instance, the annual expenditure of American tourists abroad, the remittances of emigrants in the United States to their relatives abroad, the growing volume of investments made by our people in foreign countries, interest upon investments in the United States of private citizens of our debtor countries and other items of so-called invisible exchange—all combine to furnish a large supply of our money to Europe with which they in turn can make payments for interest on debts or for the purchase of goods from us. In total to the world these sums amounted to about $1,500,000,000 in the last fiscal year, which was, indeed, a year of depression, and these are sums which with peace in the world will grow constantly over the future. These sums are largely expended directly or indirectly in our debtor countries.

If we examine our situation in international balances during the last fiscal year, we will find that the world shipped us $2,600,000,000 worth of goods. This sum added to the items of tourists, of loans and remittances and other forms of invisible exchange, gave the world a paying power to us of about $4,100,000,000. In addition, the world shipped us over $450,000,000 in gold and silver. During the year we exported $3,800,000,000 in goods. Thus, during that fiscal year the world had a paying power to us in excess of goods bought from us of about $750,000,000. This excess was probably used to readjust previous private debts.

The assumption that payments from debtor countries would need to be made in gold or in goods direct to the United States, or that goods will flood our markets, should of course be modified to the extent of the use of invisible exchange, but beyond even that it does not necessarily

follow that there is any flood of competitive goods. The world's trade is to a large extent a sort of pool, as the result of triangular operations; that is, if our investors loan money to the Argentine, then the Argentine may expend this money in the purchase of goods from the continent of Europe. The continent of Europe thus possessed of this money, may use it in payment on account of debts due us or in the purchase of our goods. Another case of triangular world commerce of profound and growing importance is the relation of our imports of goods from the tropics.

The shipment of European manufactured goods, of the sort that might compete in our home market, to the tropics, and in turn the shipment to us of tropical goods that will not interfere with our domestic manufacture or employment, is not only possible but is going on all the time. The products of the tropics—rubber, coffee, sugar, woods, etc.—are a type of goods which we can not sufficiently produce. They, therefore, do not affect employment in the United States and they are goods which are constantly increasing in ratio to our total imports. In so short a time as seven years, the proportion of products from the tropics which we imported have increased from 36 to 53 per cent of our total imports. To a considerable degree tropical countries are under control of our European debtors. As our standards of living and population continue to grow, our imports of tropical produce will further expand.

Thus, it does not follow that the whole of these debts are either to be paid in goods or that competitive goods necessarily come into our market at all from this cause. Beyond this, if America continues strong and prosperous, our ability to consume European goods of the types we do not ourselves produce will be greatly increased and Europe's ability to pay us would be still further increased. The assuming that the present surplus of exports over imports represents the available balance with which a country can meet a long-time debt ignores not only the fact that the movement of goods alone does not form the whole basis of payment, but it ignores the time element. Due to increasing population, development of science, and natural resources, the world's international commerce doubles nearly every fifteen or twenty years, and this debt burden being a fixed burden will thus be a decreasing burden.

Large international debt is not a new phenomenon. It is precisely the same thing in its effect upon exchange and trade whether the debt is intergovernmental or private. Before the war, the rest of the world owed to Europe generally probably $30,000,000,000 and this burden was carried without disturbance to the world's commerce. This total sum was mostly accumulated over a period of forty years. It is at least an indication of the productive and paying powers of peace.

No one can assess the relative weight of all of these momentous economic forces, but it is a certainty they should be taken into consideration, and that we should have more experience with them before we jump to the conclusion that these debts should be irretrievably cancelled.

No one can be impressed more than myself with the dangers and losses to American trade and commerce from the present instability in Europe, the lowered standards of living in many areas, the reduction of the great middle class from whom the intelligence and leadership must come, the diminished purchasing power for our products, the very practical questions of fluctuating exchange in its creation of a speculative element in all international business—all of them affect our own welfare directly. Beyond all this, we are affected morally and intellectually with any of the failures of civilization. Yet, as I have said, the retrospect of the last three years is not one of discouragement over Europe's progress, and any knowledge of her productive powers belies all discouragement except war. The problems involved are peculiar to each country; they need to be treated with sympathy but with the purpose of securing firm peace and recovery of the world. America earnestly wishes to be helpful to Europe, but economic matters require a degree of realism that will do justice to the American people as well as be helpful to peoples abroad.

The New Cross of Gold

(From *Current Opinion*, September, 1922.)

One by one the rainbows which Europe has been accepting as solid realities during the three years since the Treaty of Versailles are fading away. They leave us with the melancholy but healthier realization that industrial affairs everywhere in the old world are in an extremely serious condition. The nations have come close to the bring of the precipice—and the drop is long and straight.

An important factor in the tangled international situation is the burden of the debts owed by one country to another. They amount to more than fifty-six billion dollars, one quarter of the cost of the war. The other three-quarters of this cost is represented by internal obligations, which now add up to the colossal total of more than two hundred and thirteen billions.

German reparations, thirty-three billion dollars, is the largest single item of international debt. Next comes the indebtedness of the Allies to the United States, which with the unpaid interest now amounts to eleven and a half billions. Great Britain has loaned on the continent almost as much, or ten billion three hundred million. France has aided her smaller Allies with loans totaling not quite three billion.

How much of this fifty-six billion dollar total can be collected?

At the present moment, less than ten per cent; or to be precise, the four billion six hundred million dollars that Great Britain owes us.

Germany has paid two and a half billion dollars, nearly all of which has been in goods. She will pay more, if, by means of the moratorium, loan and reduction of the reparations total, she is able to get on her feet. But honesty demands the frank statement that most of the fifty-billion dollar balance is owed by nations which have neither the ability nor the desire to pay—at least for a long time.

This is particularly true of the debts owed to the United States by continental European nations. The argument of our debtors is that the money was all spent in the United States, going into the pockets of American manufacturers and workingmen. Moreover, it was spent in the furtherance of a war in which we subsequently joined, a war which we have declared was fought to save civilization, a struggle quite as much America's moral obligation as their own.

And finally, they say that we don't need the money half as much as they do. If they paid us in gold it would merely add to our already embarrassingly large hoard of precious metal. If they paid us in goods, our manufacturers would complain that their domestic markets were being ruined. True, these debtors overlook the fact that our government has outstanding more than twenty billion dollars' worth of Liberty Loan Bonds, and that their payments could be used in retiring these. But the important fact is that if they do not want to pay, we can hardly collect by force; and they certainly do not want to pay at present.

Under the circumstances, it is wholly natural that the suggestion should have been made repeatedly that America ought to cancel these debts. Only once, however, has it been made officially and upon that occasion President Wilson uttered a prompt negative. The strongest and perhaps most effective statement on the question, though it was not ostensibly directed to the United States at all, was contained in Lord Balfour's identical note to France and to the other European debtors on the eve of the London Conference of August 7.

Lord Balfour said flatly that England would be glad to participate in a general cancellation of debts, in the belief that through the impetus to economic activity all nations would gain more than they would lose. The United States, however, has asked Great Britain to pay, and the latter cannot forgive with one hand and pay with the other. The sum owing to her is four times as large as the sum she owes to the United States, but she is willing to renounce three-quarters of the debt and collect only so much as is needed to pay America.

This statement is not quite candid, for in the total, which is "four times as large" as the British debt to the United States, is included the entirely uncollectible Russian debt, as well as Great Britain's twenty-

two per cent of the thirty-three billion dollars of German reparations. Even the French officials, who have been incorrigible optimists about Germany's ability to pay because they had to take that attitude or admit a terrific deficit in their own budget, no longer hope to get more than twelve and a half billions out of Germany.

That such is the case was clearly demonstrated by the French endorsement of the idea that England should forgive France's debt and renounce in her favor the British share of reparations, provided France in turn would agree to cutting down the total bill which Germany must pay from thirty-three billion dollars to twelve and a half. It is interesting to recall that the "Series C" bonds which would thus be abolished represent the additional burden imposed to take care of the Allies' pensions and separation allowances-charges which, most authorities now agree, never should have been levied against Germany at all.

It is a sufficiently ironic comment on the financial strength of the vanquished that these conditions should have been accompanied by the proviso for a foreign loan, which both Britain and France agree is imperative, and for a moratorium as to which the only disputed point was the length, the French suggesting a few weeks or months and the British talking in terms of years.

What should be the attitude of good Americans, desirous of seeing the world restored, as to the cancellation of debts?

Lord Balfour is probably right when he argues that even in the narrowest selfish sense America would profit more by having Europe busy, prosperous and happy than by insisting on our pound of flesh. There is little to be gained in America's standing by to see the rest of the world staggering under the burden of a cross of gold—a cross which is none the less onerous because the gold is non-existent. If we could be sure that cancellation would result in the return of prosperity, our own self-interest as well as every other reason should impel us to take that step.

Unfortunately, there is little evidence as yet that either the leaders of Europe or the common people are in an attitude of mind to justify this action. Certainly the London Conference of the Premiers could not be seen to differ in spirit (at least in its opening stages) from any of its predecessors.

Europe is still ruled by hate. Huge armies are kept up; the deadly virus of imperialism still poisons millions, just as though the lesson of the last war had gone for nothing and its dead been sacrificed in vain.

The new states as well as the old are depending on the rule of force; they fence off their frontiers, and by artificial barriers interrupt the normal flow of economic life. The same old powder mine in the Balkans is ready as usual for an explosion; and western Europe is in almost as serious a plight.

Were America to cancel the debts at this moment the state of things would not be improved even temporarily. If a collapse is coming, it is too near for American aid to prevent it, though that aid went far beyond the mere cancellation of a debt which no one in Europe is taking seriously. If, on the other hand, a better day is dawning, indisputable evidence of it should soon be forthcoming. That will be the moment for the United States to take advantage of the great opportunity which will then be hers.

Refunding the Foreign Debt

(Editorial in *The World's Work*, 1923.)

Congress accurately reflected American sentiment when it passed the Act creating the World War Foreign Debt Commission and laid down the terms under which its five members may act. The Commission is allowed three years in which "to refund or convert, and to extend the time of payment of the principal or the interest, or both, of any obligation of any foreign government now held by the United States." The Commission is expressly denied the power to "cancel" any of these debts, or to let one government assume another's obligation to us, or to extend the date of maturity beyond twenty-five years from the fifteenth of next June or to accept less than 4½ per cent interest.

In other words, Congress and the American people still regard the money Europe borrowed from us during the war as a loan and not as a gift. It may some day prove to be true, as most Europeans and many Americans believe, that we shall not be able to collect a large part of this debt. It may some day seem to us desirable, as some Europeans and a few Americans already feel, that we should remit this debt, in whole or in part. But Congress and America want no misunderstanding about the present moral status of these obligations—they are a just debt. They were contracted as debts by free nations, who gladly pledged their faith and honor to repay them. When we lent them the money, we exacted no usurious interest, and we attached no political strings. When they asked for the loan of it, they attached no political provisos.

Since the war, all these borrowers have to some extent defaulted on payments of interest. Some of the bonds are maturing while our debtors are still unable to pay. Hence the refunding operation, to provide more time and better terms.

Meanwhile, these debts have been made the football of European politicians. British statesmen have made political capital of them by telling their Greek friends that they would "gladly make easier terms upon Greece's indebtedness to Britain if only the United States would cancel her debt to us." French statesmen have used the same device with Italy. There have even been intimations that the Allies might soften Germany's bill for reparations if—

America's answer to these hopes and insinuations is this: First, a debt is a debt. Commercial life cannot exist unless a man honors his signature on his note, and the comity of nations cannot exist unless a government honors its signature on its bond.

Second, if a man cannot pay his note at maturity, custom provides that he shall call on his banker and ask for terms. A government has an identical obligation.

Third, if the defaulting debtor asks for terms, custom provides that he shall give the banker access to his books and shall, to a reasonable extent, be guided by the interests of the banker whose assets he is diminishing.

At this point the analogy with governments tends to become misleading unless it be recalled that the United States has never had, does not now have, and cannot conceivably ever have a meddlesome interest in European politics. We covet only one thing in Europe, and that one thing is peace. We submit that if Europe wants a mitigation of its debt to us, and that if Europe wants further loans from us, we have a right to demand that Europe shall put its house in order and run its business in a way to achieve the only thing we care about over there, namely peace.

And we know that there will never be peace in Europe so long as several malign conditions continue. There will be no peace in Europe until Europe reduces its armies and substitutes mutual confidence for mutual mistrust. There will be no peace in Europe until the German bill for reparations is fixed at a level where Germany can pay and where she will pay because it will be to her interest to do so. There will be no peace in Europe until Russia returns to the family of nations. There will be no peace in Europe until every government in it lives within its income.

This sounds like a big order—to produce all these changes in Europe. But it is not beyond the powers of man. Call it reason, or call it good will, or call it enlightened self interest—by any name, that one attribute can accomplish it. Unless it be called into play, Europe is destined to miseries beyond the power of money to allay.

America regards her foreign debt, therefore, as an instrument of service. If we can trade it in for a Europe headed toward reconciliation and peace, there is little doubt that American opinion will accept that form of payment.

The Payment of War Debts

(By HON. THEODORE E. BURTON, of Ohio.)

Let it be understood that whatever I say is said upon my own responsibility, rather than as a member of the so-called Debt Commission or as a member of Congress. I must say that the disposition of the peo-

ple of the United States is to require the payment of these debts. It is not difficult to trace the reasons which have led to this conclusion. They are: First, a feeling that international credits, especially the debts of nations, have a certain degree of sanction, I may say of sacredness. No one can exaggerate the importance of credit in the modern financial and industrial world. It renders the resources of those who do not engage in enterprise available for the benefit of all for the promotion of wholesome activity. . . The cancellation or repudiation of debts would create not merely confusion and distrust in the financial world, but quite as dangerous—would seriously impair future development. The result would rest with special weight upon such a country as England, where for centuries past, English currency and English obligations have been the very synonym of stability and of assurance of payment. Common fairness dictates that this record for meeting obligations should create no discrimination to her disadvantage.

Another reason is that the amounts advanced to foreign countries were provided by loans obtained from the people, and that with no small degree of difficulty. The advances made were not from an abounding revenue, but by the action of the United States in becoming a borrower alike with these debtors at the time. The burden of taxation is extremely heavy in our own country, and in proportion to the burdens existing before the late Great War the increase in national indebtedness has been far greater, and, in taxation, quite as great as, if not greater than, in the countries of Europe whose obligations we hold. We do not like the idea that we should have a permanent national debt. There is a burning desire for the maintenance of peace. In case of cancellations, what assurance is there that the resources which otherwise would be applied upon payments might not be utilized for the expansion of military and naval establishments, and thus create an ever-present threat of future conflict and destruction?

There is still another point in this connection. A very considerable fraction of the advances was made after the actual close of the war, and was for rehabilitation and the creation of new enterprises, rather than for the prosecution of the war in the time of great emergency. It must be said that at the time these loans were made the legislation authorizing them and the popular expectation alike contemplated payment. It was the universal expectation that the loans would be repaid. In the war itself the United States was not subjected to the same surpassing dangers as her Allies, and in the peace she sought no acquisition of territory. Large indemnities are not expected by her.

I cannot too strongly emphasize the fact that the only effective means for the payment of debts and the healing of the economic life of nations must depend upon progressive disarmament and the maintenance of peace. The burdens of war and of preparation for war have

demoralized the finances of nations and spread their withering blight everywhere. In our own country we can point to the startling fact that the expenses of the so-called Civil War from 1861 to 1865 were more than all the expenses of the Federal Government from its beginning in 1789 for seventy-two years, and what is still more striking, that the expenses of the late war, with its aftermath and immediate results, were greater than all the expenses of the Federal Government in the 128 years preceding. There can be no more forcible illustration of the desirability of providing means which justice and the common sense of mankind may devise for the amicable settlement of controversies among nations.—Extracts from speech before the American Chamber of Commerce in London, September 26, 1922. Reprinted from (*London*) *Times*.

The War Loans

(By HON. ELIOT WADSWORTH, assistant Secretary of the Treasury, in address at the banquet of the Academy of Political Science, New York City, Nov. 24, 1922.)

I wish to make it very clear that there is no intention of entering upon the question as to whether we are ethically called upon to cancel. That question is one of personal judgment. I am going to talk of those loans purely from a business point of view.

As a practical matter, what has been the real effect of these debts upon foreign exchanges, foreign trade, and European budgets? What is their actual contribution to the financial uncertainties in Europe? The notes lie dormant in the treasuries of the creditor countries—England, the United States and France. I do not know just how much England and France may have collected since the armistice, but the payments to this country have certainly had little effect upon foreign exchange.

Nations like individuals must have credit or fall behind. The debtor nations must have capital for recontruction and development. It can hardly be doubted that in the long run credit will be more quickly restored if the debts now outstanding can be settled in some business-like way and the promises given by sovereign nations redeemed.

There is a point in this discussion not often made, namely, that some day we may be the borrower; the European nations, the lenders. If the debts of this war are cancelled, just how could we word our promise to pay so as to satisfy the lender that we would not in after years request its cancellation on the ground that we had taken similar action in years gone by?

In view of what has been said in some quarters as to the actions of this country in its role of creditor, it is well to rehearse the record in order that the facts may be more fully known.

After the armistice the United States continued its financial support to Europe on a liberal scale, not alone to clean up war liabilities, but to help meet the needs of old and new nations precipitately changing from

a war to a peace basis. Loans of 2½ billion under the Liberty Loan Acts, 84 million under the Relief Act, were made, while much needed supplies were sold on credit by the Army and Navy to an amount of 575 million, a total of three billion one hundred fifty-four million dollars, or over 30% of the total loans which we are now discussing. That was a trying time and the money advanced was thought by some at least to have saved Europe from revolution and perhaps bolshevism.

In the spring of 1919 when interest came due on the loans the United States advanced the money needed by its debtors to make payment. In September of that year the treasury announced that it was prepared to discuss the funding of the debts and "the funding during the reconstruction period, say two or three years, of interest on the obligations of foreign governments." Interest payments were thereby practically deferred for three years.

That the Government has declined to consider cancellation is not a just ground for criticism. It is doubtful whether there is any serious popular opinion in favor of such action, and certainly there is no authority, without an act of Congress. The loans are part of the assets of the people of the United States represented by debts from nineteen nations, varying in quality from 100% good to 100% bad. They were made for a variety of purposes—not all for the fighting of the war. It would hardly be wise or reasonable to talk of lumping them together for cancellation without regard to the financial needs or desires of the debtors, with no assurance of the benefits which might accrue to mankind, and with no thought of the future effect of such action upon the value of a nation's bond offered in time of stress as security for cash advances.

If our people feel in their conscience that they should make a gift of part or all of these notes, that is an entirely different matter. Congress alone could take such action.

Europe has for generations been prosperous and produced a surplus of wealth, enough for her own capital requirements and vast investments throughout the world. Mr. Hoover estimates that before the war the rest of the world owed Europe 30 billion dollars. Sir Reginald McKenna expressed the opinion that England in spite of her sales of securities during the war still owns sufficient foreign securities to cover her debt to the United States two or three times over. Peoples who could achieve such results in the past will do it again.

The question of the Allied debts to the United States might be summarized by saying that the United States was by no means an unliberal lender; has not so far proved to be a hard-hearted creditor; would be glad to talk with the debtor nations in an effort to ease the burden of their debts during the difficult times of the present, but does not feel that the present is a time to consider cancellation, nor that in view of our knowledge today cancellation can be considered as a way out.

The War Debts

(By GARET GARRETT, in *The Saturday Evening Post*, November 25, 1922.)

Until the war Europe was creditor to the whole world, drawing millions of interest annually from distant countries, including at least $500,000,000 a year from the United States. Now for the first time it owes, and from thinking of this debt of, say $11,000,000,000 to the United States, it has developed a kind of debtor's hysteria. It owes itself so much on account of the war that it cannot pay. Or it cannot pay us until Germany pays.

Steadily, since the Armistice, cancellation of war debts has been powerfully and adroitly urged.

When Great Britain says she is willing to forgive war debts of £3,400,000,000—say $17,000,000,000—while the United States is unwilling to forgive only about a quarter of that sum, say £850,000,000—$4,250,000,000—the arithmetic is misleading.

In that sum of $17,000,000,000 of war debts due to Great Britain, which she would forgive, is included $7,250,000,000 of German indemnity, which now is admitted to be uncollectible.

The American Government has no claim upon German indemnities. It does not participate. Thus the figure of Great Britain's generosity is swelled with a claim against Germany for $7,250,000,000 in contrast with which the American Government has no such claim to be either enforced or forgiven, for the specific reason that it never made one and left the Allies free to take for themselvs first whatever they could get from Germany.

If we deduct Great Britain's claim upon Germany, the actual amount of debt she is willing to forgive becomes $9,750,000,000. On the other hand, in the event of an all-around cancellation of war debts, the amount the United States would have to forgive would be $10,500,000,000, for, of course, we could not forgive Great Britain $4,250,000,000 and collect from all our other debtors. Moreover, in the event of an all-around cancellation, Great Britain would both forgive and be forgiven, whereas the United States could only forgive. The case would then be:

Great Britain forgives	$ 9,750,000,000
Great Britain is forgiven	$ 4,250,000,000
Net British sacrifice	$ 5,500,000,000
The United States would forgive and sacrifice	$10,500,000,000

Thus we, the traders, would lose $5,000,000,000 more than Great Britain.

It is bound to be admitted that cancellation may be morally urged upon one ground only—that is, upon the ground that the war was a common enterprise in defensive of civilization.

The amazing fact is that neither Great Britain nor any other allied government in Europe is proposing even now to take that view of the case actually. What is proposed only is that America shall uncharge Europe for the things Europe borrowed in the United States. It has never once been suggested that Europe should uncharge America for the things America bought and paid for in Europe during the war, for the war.

While Great Britain, France, Italy and the other Allies were giving us their I O U's for the war things they got in the United States, we paid at once for all the things we got in Europe. America's expenditures for war things in Europe gave Europe more dollars to spend for war things in the United States and increased the means to victory; and the aggregate of these expenditures was enormous—four or five billion dollars.

Can Europe's debt to the American Government be paid as a matter of fact? Consider what this debt represents—a surplus of things produced in nineteen months by the labor of 100,000,000 people above their own peace needs and war needs combined and loaned away to other people.

What would repayment represent? Merely a return of those things or the equivalent thereof.

Does anyone pretend to say that the 172,000,000 people of Great Britain, France, Italy, Belgium, Rumania, Czecho-Slovakia, Jugo-Slavia and Greece, in twenty-five years, cannot with their labor produce in excess of their own peace needs a surplus of things equivalent to the surplus of things produced in nineteen months by 100,000,000 people in excess of their own peace and war needs combined?

The great bulk of Great Britain's foreign investments, probably $15,000,000, survived the war intact. But if Great Britain had not been able to borrow American dollars all those foreign investments would perhaps now belong to the late Imperial German Government.

If the allied countries did not owe us they might be paying the Germans.

And if the allied countries do not pay us we shall, to all intents and purposes, have paid the German indemnity.

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A list of publications containing valuable material on the query under discussion is given below. The books and magazines can be secured from their publishers. Included in the bibliography are the names of a number of organizations and bureaus which will be glad to furnish material as far as they are able.

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